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Effectiveness of Credit Management Policies as a Treasury Management Tool in Enhancing Financial Performance: The Case of Colcom Pvt Ltd. 2015-2019

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ABSTRACT

This study evaluated the viability of credit arrangement policies in enhancing financial performance of firms. The purpose of the study was to evaluate amongst other things, the effects of money receipting framework on monetary execution and the effects of enthusiasm on past due records. A logical exploration configuration was utilized in this investigation just as a multivariate relapse investigation was directed to decide the coefficients of the factors. The study adopted a quantitative research methodology and data was collected using a questionnaire. Judgemental inspecting method was utilized on a sample size of 11 representatives out of a whole populace of 20 workers. In addition, two top administration representatives were met for information sharing. The results indicated that the current credit administration strategies of Colcom Ltd were not completely executed and furthermore, they positively affected financial execution. The study concluded that credit arrangements had the best effect on budgetary execution, followed by some factors such as the economic instability and political interventions. This study recommends the full implementation of the current credit management policies, regular training of credit officers and to practice scientific credit control (application of risk evaluation techniques). This would improve their efficiency in credit analysis and customer analysis management to secure as much as possible their assets, and reduce the high chances of turning into credit losses and their negative effects on good financial performance.

Keywords: Credit Management Policies, Treasury, Management Tool Financial Performance
JEL Classification: G3

1. INTRODUCTION

The study focuses on the credit management division in the accounts department of Colcom Ltd. Colcom Ltd is a 100% subsidiary of Innscor Africa Ltd. Colcom is in the manufacturing sector under food processing. Its core business is the manufacture of pork products and it has other associates, which focuses on beef and chicken products.

According to Achumba and Osuagwu (1994), marketing experts have long established that granting credit is one of the tools employed by an organization to expand the volume of sales. It provides a vital marketing link for the movement of goods from production through distribution stages to a large number of customers who do not have immediate payment capacity. Trade credit creates an account receivable under current assets in the firm's statement of financial position, which the firm expects to receive in the future. Pandey (2010) agreed that apart from increased sales volume, firms grant credit to customers for specific reasons such as to acquire a good share of the industry market, achieve envisaged level of profit, command customers' loyalty, and retain them in the firm.

In credit deals, the monetary incentive in products relaxes of procurement while the merchant anticipates that a comparable sum should be gotten on a later date. The halfway or full instalment delay at the hour of deals may force some component of liquidity hazard to the merchant (Kaitibi et al., 2018). Accordingly, credit deals infer both now and future exchanges, which includes a receivable hazard that ought to be mindfully, broke down and satisfactorily oversaw. In spite of the fact that in each business circle credit is unavoidable, it stays a danger to the monetary dependability and execution of any business particularly in an unstable economy, for example, of Zimbabwe (Agu and Basil, 2013; Nwanna and Oguezue, 2017). Business ventures today use exchange credit as a noticeable methodology in the zone of advertising and monetary administration, consequently, exchange credit is vital in the development of the organizations. Anyway, in a delicate economy selling using a loan may force monetary dangers identified with loss of significant worth through swelling. As per Dunn, (2009) the records receivables are probably the biggest resource of a business venture involving roughly 15% to 20% of the complete resources of a run of the mill fabricating firm.

Kakuru (2001) consented to Dunn (2009) by further contending that interest in receivables takes a major lump of associations' benefits. These benefits are exceptionally defenceless against awful obligations and misfortunes. It is subsequently important to oversee accounts receivables fittingly. Exchange credit is imperative to a firm since it assists with shielding its deals from being disintegrated by contenders and furthermore pulls in likely clients to purchase at positive terms. For whatever length of time that there is rivalry in the business, selling on layaway gets unavoidable. A business will lose its clients to rivals in the event that it does not stretch out credit to them. Consequently, interest in accounts receivables may not involve decision yet a matter of endurance (Kakuru, 2001). Given that, interest in receivables has the two advantages and costs; it gets critical to have such a degree of interest in receivables simultaneously watching the twin targets of liquidity and benefit (Foulks 2005).

The administration of receivables has become a common sense issue in an economy related with hyperinflation, for example, Zimbabwe. Organizations are finding their liquidity under extensive strain because of the degrees of their records receivables not appropriately managed. In this manner the management of records receivables is significant, for without it; receivables will develop to over the top levels prompting declining incomes. Poor administration of receivables will result into terrible obligations, which brings down the business' benefit (Samuel and Walkers 1993). Credit strategy is the most mainstream mode of overseeing and controlling receivables. To guarantee ideal interest in receivables, a business is required to have a fitting credit strategy. Credit strategy is intended to limit costs related with credit while boosting the advantages from it.

Credit the executing is a significant issue in any association since most business activities depend on layaway standing concurred by the two gatherings. This is because without an appropriate administration of company's credit parts, it is hard for the firm to run its tasks easily. That is the reason Brigham and Houston (2003) saw that around 60 percent of a regular budgetary chief's time is dedicated to dealing with the association's credit undertakings. Consequently, the essential piece of overseeing credit is keeping up the necessary liquidity in everyday activity to guarantee association's smooth running and to meet its commitment. As indicated by (Kargi, 2011) the credit work improves the capacity of financial specialists to misuse wanted beneficial endeavours. Credit creation is the principle of salary producing action; nevertheless, it opens the firm to credit dangers.

As indicated by Psillaki et al. (2010), effective administration of credit prompts the arrival of assets for different purposes since the pointless interest in working capital outcomes to a lessening in returns, then again, providing deficient assets for working capital may prompt monetary requirements and a liquidity issue as the firm can't fulfill its transient liabilities (Lamberson, 1995; Viskari et al., 2011). Thus, a worth amplifying hazard return exchange off is an unequalled fixation of account supervisors managing credit management and accomplishing wanted firm benefit targets.

Owolabi and Obida (2012) prescribed that administration should control credit to guarantee sufficient liquidity by creating suitable credit model that would give an assortment of receivables at the due date. The procedure incorporates credit terms and clients' hazard evaluation, credit assortment, and upgraded obligation recuperation requiring little to no effort. Ifurueze (2013) noticed that sufficient liquidity affects the benefit of an association. This declaration has prompted an issue of how credit-executing methodologies affects the degree of liquidity and noteworthy benefit.

As indicated by Chee and Smith (1999) credit executing is multi-faceted. There are two essential types of exchange credit: the less complex structure and the net terms. The more straightforward structure indicates that full instalment is expected inside a specific period after conveyance. Similarly, as with net terms, the purchaser is in default if instalment is not made before the finish of the net period. Because of the speed wherein innovation is changing and the elements in business brought about by changes in their inward and outer condition, the manners by which organizations are led today contrast essentially from yester years. In this manner, for a credit board to be viable it ought not to be static (Ojeka, 2012). Credit board requires to be investigated intermittently to guarantee that the associations work in accordance with the opposition. This will guarantee that credit divisions are profiting.

Associations vary so do their credit strategies. While most organizations have their own approaches, systems and rules, it is improbable that any two firms will characterize them along these lines. In any case, Ojeka (2012) opined that regardless of how enormous or little an association is and paying little heed to the distinctions in their activities or item, the impacts of credit arrangements for the most part realize comparable outcomes. Impacts of a credit strategy are either sufficient to bring development and benefits or terrible enough to bring declination and misfortunes. This similitude is because of the point of each administrator, which is to gather their receivables productively and viably, hence expanding their money inflows.

Miller (2008) fights that there are four reasons why affiliations have created credit courses of action. To begin with, the undertaking of regulating receivables is a certifiable commitment. It incorporates confining horrendous commitments and improving pay. Remarkable receivables become a huge asset of a firm and thusly require a thought about and sorted out technique and along these lines, credit executing is significant. Furthermore, a credit technique ensures a degree of consistency among divisions. By recording what is ordinary, the purposes of the association because of publicizing, creation or reserve, will comprehend that they have a run of the mill course of action of destinations. In like manner, a made methodology can portray each office abilities with the objective that duplication of effort and superfluous scouring are kept up a vital good way from.

Notwithstanding that, Kalunda et al. (2012) conceded to the third explanation contending it accommodates a steady methodology among clients. Dynamic turns into a sensible capacity dependent on foreordained boundaries. This reworks the decision method and yields a sentiment of sensibility that will simply improve customer relations. Finally, it can give some affirmation of the workplace as an alternate component, one that is meriting offering commitment to the general strategy of the firm. This allows the division to be a noteworthy advantage for top administration.

Looking at the Zimbabwean situation, particularly Colcom Pvt Ltd., it has a wide customer base who purchase on credit. The customers have agreed payment terms with the organisation to pay their accounts when they are due. However, due to the volatility of the economy it has become a major concern for the organisation to keep up with the economy's pressures. The purchasing power of money has fallen due to the depreciation of the RTGS$ since its inception. There are many other economic woes such as power and fuel shortages among others, all these contribute to the need of the organisation of having a tighter credit management policy. Colcom Ltd is in the manufacturing sector and there are many raw materials that need to be purchased to sustain it production levels. All these inputs need to be paid and most of these are imported from other neighbouring countries such as South Africa. Due to the decline in the exchange rate of the RTGS$ against the US$, it has imposed significant threats to other currencies such as the Rand and Pula and the RTGS$ has lost value relentlessly.

Since the immediate ban on the use of multicurrency system in Zimbabwe on 24 June 2019, prices of goods and services has galloped like never before. Policy inconsistency and poor planning are hurting the economy as well as all manufacturing companies. Bhoroma (2019) opined that the introduction of the Zimbabwean dollar was rushed without the proper considerations on the impact of removing the multicurrency regime. Although some exemptions were made in some sectors of the economy, this did not include the manufacturing firms such as Colcom Ltd., the organisation has had to feel the bite of the of the law. In its response to the new law introduced, the organisation had to tighten its credit management policies so that it does not produce at a loss and to maintain its liquidity and increase revenue collection.

Production costs have risen due to the decline in the exchange rate (Bhoroma, 2019). Imports have become more expensive and as a result, Colcom Ltd has had to increase their prices to match with the current prevailing interbank rate. The International Monetary Fund estimated that the inflation rate was at 300% in August 2019 and this meant prices of goods had risen by 300% as well. In order to remain profitable and liquid, the organisation has to charge its customers according to the prevailing rate in order to boost revenues. However, Colcom's customers' incomes have been eroded by inflation and some are failing to pay as per agreed terms due to the ever-changing exchange rate on a daily basis. Due to the prevailing economic environment in Zimbabwe, firms have to monitor jealously the credit function, as it is the window through which revenue flows into the entity.

The level of debtors for Colcom has increased significantly from the year 2017. This is attributable to the lack of sound credit management techniques in a volatile economy such as Zimbabwe. Indeed, there has been an increase in revenue due to increased sales, however these sales are mostly on credit and accounts receivables have built up to excessive levels due to customers not paying their dues on time. The level of debt up to the year 2019 has increased by 600% from 2017. This resembles excessive accounts receivables build up as explained by Ojeka (2012).

2. RESEARCH METHODOLOGY

The investigation focused on an aggregate of 20 representatives whom all are from the records office involving the males and females all between the ages of 24 and 50. The populace comprised of the finance manager, the bookkeeper, the associate bookkeepers, the records assistants (lenders and indebted individual's clerks), the accounts intern. Most of the populace were men who make up 60% of the accounts division workers and 40% were females. The investigation foreseen to get dependable data from the individuals as all have arrived at conventional level or have achieved better instructive capabilities. The reason for such a population was to restrict the number and the information to the finance department as it is the one responsible for handling the company's finances. This department is where all the company's receipts and payments come and go through so the information obtained was to be reliable as everyone in this department is well aware of the way in which monetary transactions are handled as well as the understanding of the credit function. The sample size was 11 representatives out of an aggregate of 20 worker staff. This study considered judgemental testing suitable because it allowed the researcher to concentrate on information rich partakers. Of the target population, the majority were still males as more males are within this department. The study adopted a quantitative research methodology and data was collected using a questionnaire.

2.1. Independent Variable

The independent variable in this research is credit policies. The credit management policies that are under study are the amount of discounts allowed to customers, the cash receipting system, issuing of reminder letters and summons/litigations. These are the sub-variables, which make up the independent variable and they make up the overall credit management to be functional. The overall credit management policy is measured by the average collection period, which takes the form of:

$$ACP = D/CS$$

Where: ACP- the average collection period
D-Debtors or trade receivables
CS-credit sales

Discounts given out will be measured using the total amount of discounts allowed to customers over a period and the number of litigations will be used to measure how many successful litigations were made. The number of reminder letters issued will be also used to measure how often customers are sent reminder letters as well as the amount of interest received from defaulting customers will be used to measure the how much interest has been collected from the customers.

2.2 Model Specifications

2.2.1 Multivariate regression

Parramore and Watsham, (1997) express that a relapse examination tests the measurable quality of the model as speculated. Accordingly, the analyst will direct a relapse investigation to discover the connection between the needy and autonomous factors. For the motivations behind this exploration, a model like that utilized already by different analysts will be utilized, taking into account that there is more than one free factor. Thusly, the analyst needs to move from single free factor relapses to conditions with more than one autonomous variable suggesting that a multivariate relapse model should be presented.

A multivariate relapse coefficient shows an adjustment in subordinate variable related with a unit increment in one free factor, holding other autonomous factors consistent (Studenmund, 2011). The analyst will accordingly play out the accompanying relapses:

$$Y= \alpha+\beta1X1+\beta2X2+\beta3X3+\beta4X4+\beta5X5+ę$$

Where: Y= Financial Performance as measured by Profit after tax amount
α= Constant Term.
β= Beta Coefficient - This measures how many standard deviations a dependent variable will change per standard deviation increase in the independent variable.
X1= Cash receipts from customers.
X2= Discounts allowed.
X3= Interest charged on overdue accounts.
X4= No of reminder letters issued.
X5= No of summons/litigations done on customers.
ę= Error term.

2.2.2 Summary of variables

Variable	Definition	Formulae
Y	Financial performance	Profit after tax amount
X1	Cash receipts	Amount of cash sales as per the questionnaire
X2	Discounts	Amount of discount allowed as per the questionnaire
X3	Interests charged	Amount of interest charged as per the questionnaire
X4	Reminder letters	Number of reminder letters as per the questionnaire
X5	Summons/litigations	Number of summons as per the questionnaire

3. DATA PRESENTATION, ANALYSIS AND DISCUSSION

3.1 Effects of the Credit Management Policies on Financial Performance

In order to measure whether the credit management policies implemented at Colcom were effective enough, the study used the average collection period to determine whether those policies were worked for the betterment of the organisation or not. The method was deemed relevant because it summarises all the credit management policies, which intends to minimise the collection period. All the credit management policies mentioned above contributes to the amount of debtors as well as the amount of sales made for the year hence the method used in measuring the effectiveness of these policies is appropriate. The formula used was:

$$Average\ Collection\ Period = \frac{Debtors}{Credit\ sales} \times 365\ Days$$

$$\text{ACP} = \frac{6\ 600\ 000}{7\ 020\ 000} \times 365 = 343 \text{ days}$$

From the results above, it is evident that the average collection period for the accounts receivables is too long. 343 days is nearly close to 1 year and for a manufacturing company in the food industry the cycle is very long and need to be reduced extensively. In other words, it just indicates that the credit management policies are not effective enough and they may not be implemented appropriately.

Despite the fact that associations differ thus do their credit strategies, most associations have their own game plans, methods and rules. In any case, Ojeka (2012) opined that paying little mind to how immense or minimal an affiliation is and paying little brain to the differentiations in their exercises or thing, the effects of acknowledge techniques when in doubt acknowledge similar outcomes. Effects of a credit technique are either adequate to bring advancement and benefits or sufficiently horrendous to bring declination and disasters. This closeness is a result of the purpose of every manager, which is to assemble their receivables capably, and enough, along these lines augmenting their money inflows.

3.2. Regression Analysis

The Adjusted R Square is the coefficient of assurance which reveals to us the variety in the dependent variable because of changes in the free factor, from the discoveries in the Table 1 the estimation of adjusted R squared was 0.761 a sign that there was variety of 76.1% on money related execution of the association because of changes in credit management arrangements at 95% certainty span. This shows 76.1% changes in monetary execution of Colcom could be represented with money receipting, exchange limits, premiums on past due records, prosecution, update letters just as phone following. R is the connection coefficient, which shows the connection between the factors, from the outcomes showed in the table, there was a solid positive connection between the examination factors as demonstrated by the R of 0.892.

Table 1: Model summary

Model	R	R Square	Adjusted R Square	SEM
1	0.892a	0.796	0.761	0.2467

Source: Own elaboration

From the ANOVA insights over, the delivered information, which is the populace boundaries, had a noteworthiness level of 0.012 which demonstrates that the information is appropriate for settling on a choice on the populace's boundaries as the estimation of centrality is under 5%. The determined worth was more prominent than the basic worth (1.699 < 2.213) which shows that these credit management approaches essentially impact monetary execution of Colcom.

From the information in the Tables 2 and 3 the setup relapse condition was:

$$Y = 0.218 + 0.392\ X1 + 0.239X2 + 0.284X3 + 0.396X4 + 0.249X5$$

From the above regression condition it was uncovered that holding money receipts, limits permitted, enthusiasm on past due records, prosecution and update letters to a steady zero, budgetary execution of Colcom would be 0.218, a unit increment in real money receipts would prompt increment in monetary execution by a factor of 0.392, a unit increment in premium charged would prompt increment in execution by a factor of 0.239 and furthermore a unit increment in limits would prompt increment in execution by a factor of 0.284. The examination likewise found that all the P-values were under 0.05 a sign that all the factors were factually huge in affecting budgetary execution of the organisation.

3.3. Cash receipting system at Colcom

From the data that was collected from the organisation, it was evident that cash sales were much lower compared to the figures of credit sales. The results from the data indicated that much of the sales made by the organisation were on credit (Table 4).

From the Figure 1, credit sales are much higher as to cash sales made in every year dating back to 2015. In the year 2015, cash sales were only 14% compared to 86% of the credit sales made. This shows that the cash receipting system in the organisation is used to a very much low extent resulting in the excessive building up of the accounts receivables. Although there were some improvements in the cash receipts of the organisation, the extent to which the cash sales system is being used remain very low.

Dunn (2009) concurred that interest in receivables takes a major lump of associations' advantages and these benefits are exceptionally helpless against awful obligations and misfortunes. It is hence important to oversee accounts receivables properly since exchange credit is essential to a firm since it assists with shielding its deals from being disintegrated by contenders and furthermore pulls in expected clients to purchase at positive terms (Kakuru, 2001). For whatever length of time that there is rivalry in the business, selling using credit arrangements gets inescapable.

Table 2: ANOVA

Model		Sum of Squares	df	Mean squares	F	Sig
1	Regression	0.896	4	0.224	2.213	0.012a
	Residual	5.184	48	0.108		
	Total	6.08	52			

Source: Own elaboration

Table 3: Coefficients

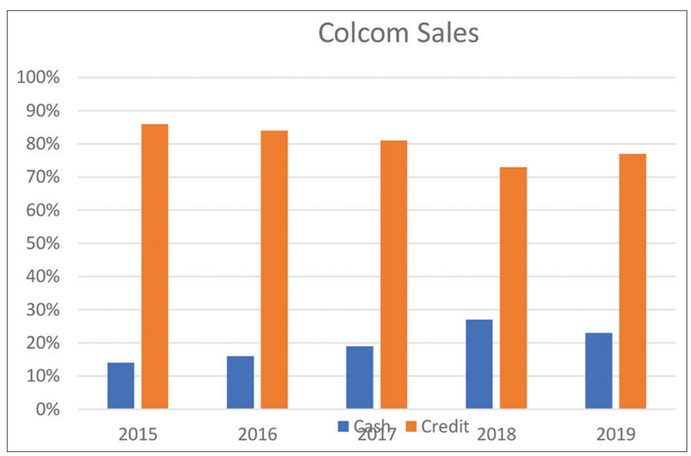
Model		Unstandardized Coefficients		Standardised Coefficients	t	Sig
		B	Std. Error	Beta		
1	Constant	0.218	0.141	0.260	1.608	0.039
	Cash receipts	0.392	0.271	0.071	1.653	0.029
	Interests	0.239	0.165	0.035	1.087	0.032
	Discounts	0.284	0.157	0.788	1.852	0.012
	Reminders	0.296	0.169	0.027	1.786	0.24
	Litigations	0.249	0.146	0.205	1.434	0.018

Source: own elaboration

Table 4: Colcom sales

Year	2015 $	2016 $	2017 $	2018 $	2019 $
Cash sales	439 000	677 000	766 000	1 600 000	6 500 000
Credit sales	2 760 000	3 450 000	3 300 000	4 300 000	21 200 000
Totals	3 199 000	4 127 000	4 066 000	5 900 000	27 700 000

Figure 1: Colcom sales for the past 5 years



3.4. Discounts Allowed to Customers

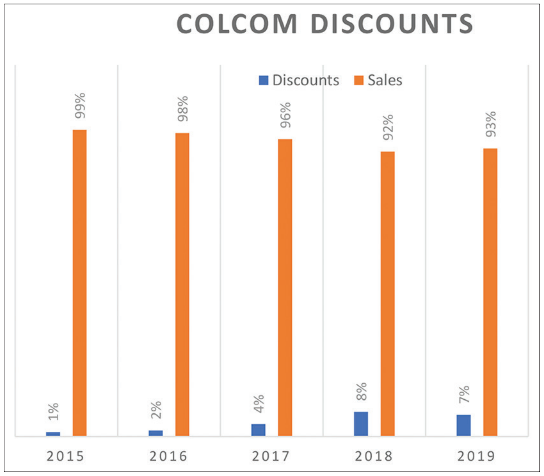
It has been discovered from secondary data sources that discounts are not so often offered by the organisation. The amount of discounts as taken from the financial statements of the organisation shows that very little discounts are given out to customers. In 2015 alone only 1, 44% of the sales figure were given out as discounts to customers (Table 5).

From the Figure 2, it can be shown that the organisation sometimes gives close to nothing at all as discounts to its customers. The discounts in the figure above has been expressed as a percentage of total sales figure and it is evident that in previous years particularly in 2015 and 2016 very little discounts were given out to customers.

Table 5: Total discounts given out for the past 5 years

Year	2015 $	2016 $	2017 $	2018 $	2019 $
Discounts allowed	46 000	84 500	167 000	484 900	1 900 000
Total sales	3 199 000	4 127 000	4 066 000	5 900 000	27 700 000

Figure 2: Discounts as a percentage of sales



Collins (2010) also talks about giving out discounts to eligible customers as a general method of credit management and he argues that discounts enhances customer loyalty towards the organisation hence may help in retaining them.

4. CONCLUSION

This study sought to review the relationship between credit management policies and the financial performance of a firm in Zimbabwe. The study only focused on a single firm, which is Colcom Ltd., which is in the manufacturing and food processing industry in order to test the relationship between the two abstract concepts, it was necessary to employ proxies for both credit management policies and the financial performance of this firm. Cash receipting system, discounts, interest on overdue accounts, litigations, reminder letters and telephone tracking were used as proxies for credit management and profit after tax was taken to be an indicator of firm's financial performance. Secondary data for the organisation was subsequently drawn from the audited financial statements and annual reports of the respective firm. A single regression analysis model was constructed to test the relationship for the 5-year period. The statistics package SPSS was then used to analytically test the relationship between the variables using the ordinary least squares regression method. The study concluded that there exists an individual and uniting relationship between credit management policies and the financial performance of a firm. In effect, the relationship is direct, signifying that good credit management leads to increased financial performance, and the opposite holds. It was established that the better the credit management practices employed by the firm, the higher their financial performance, and conversely, the weaker the credit management practises, the diminished will be the financial performance of a firm. The results of this research were also found to be statistically significant and are consistent with the present realities in Zimbabwe's economic environment since the early 2000s, have led to a cumulative decline in the financial performance of manufacturing firms largely as a result of growing poor economic environment. Combined with the findings from the six proxies (cash receipting, discounts, and interests on overdue accounts, reminder letters, litigation and telephone tracking) for credit management, we conclude that there is a positive relationship between credit management and financial performance. That is to say, the better the credit management is, the higher the financial performance of a firm is.

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