

CREDIT MANAGEMENT PRACTICES AT THE KENYA POWER AND LIGHTING COMPANY

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DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted for a degree in this or any other University for examination.

Signed: 


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17th November 2008

Date

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

Signed: 

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18 NOVEMBER 2008

Date

DEDICATION

I dedicate this project to my late mother who passed on earlier in the year; she had given me encouragement through this research process until her demise. To my classmates, family members and friends, I say a big thank you for your moral and material support that you accorded me during the research process. All praise goes to our Almighty Father.

ABSTRACT

The aim of the study is to evaluate current credit management practices at KPLC and to assess the effectiveness of these credit management practices.

Credit management has established itself worldwide as a vital management function, contributing to the economic well being of organizations of all kinds. Efficient credit management, with its crucial impact on cash flow, can make the difference between survival and insolvency in the private sector, or between cost effective and wasteful administration in the public sector. Effective management of accounts receivable therefore presents important opportunities for organizations to achieve strategic advantage through improvements in customer service, cash management and reductions in costs

This research is a case study and the method has been chosen because it enables the researcher to probe and obtain an in-depth understanding of a particular phenomenon. The population of interest will be personnel in the credit department of KPLC both at the headquarters and all regional offices. A stratified sample of personnel was drawn for the purpose of administering questionnaires. Qualitative and quantitative research methods were complementarily used in order to have a more objective interpretation of data. The combination of the methods used provided a rich portrait of the phenomena under study.

Data analysis involved computation of mean, the standard deviation and the median for each of the units' debts and bad debts. It comprised the tabulation and comparison of cross sectional variables across units and over time. It further used the descriptive statistics of the Debtor's days, Average collection period, Day's sales outstanding and ageing schedule. From the results, conclusions were drawn on the effectiveness of the credit management practices at the KPLC.

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LIST OF ABBREVIATIONS

ACP	-	Average Collection period
DSO	-	Days sales outstanding
EFT	-	Electronic funds transfer
IOMA	-	Institute of Management Accountants
KPLC	-	Kenya Power and Lighting Co. Ltd

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Arguably, the role of a corporation's management is to increase the value of the firm to its shareholders while observing applicable laws and responsibilities. Managers therefore strive to increase the level of business activity in order to achieve higher returns. In today's competitive environment firms must sell on credit to enhance sales (turnover). However, selling on credit has its hazards. Customers will 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 result into write-offs which according to Horne and Wachwicz (1998) erode company's profitability by the cost and other direct expenses incurred to make the sale. The term credit policy refers to the combination of decision variables considered in the extension of credit and effective collection of credit. Credit policy is a statement outlining an organization's credit management objectives together with the actions to be taken in relation to credit risk management, invoicing, collections, query management, accounts receivables maintenance and management reporting.

Credit management has established itself worldwide as a vital management function, contributing to the economic well being of organizations of all kinds. Efficient credit management, with its crucial impact on cash flow, can make the difference between survival and insolvency in the private sector, or between cost effective and wasteful administration in the public sector. Effective management of accounts receivable therefore presents important opportunities for organizations to achieve strategic advantage through improvements in customer service, cash management and reductions in costs. Horne (1993) notes that besides economic conditions the firm's credit policies are chief influences on the level of a firm's accounts receivables. He further asserts that there is a cost of carrying the additional receivables as well as a greater risk of bad debt losses. The point is that credit and collection policies are interrelated with the pricing of product or service and must be viewed as apart of the overall competitive process. Economic conditions and increased competition compel organizations to offer services on credit: accompanying the benefits of increased sales, there are high default risks that may adversely affect the organization's future.

Organizations therefore come up with appropriate credit management policies that will reduce the incidence of defaults (Horne, 1993). Monopolies however, have constraints in managing their credits. This is because the government bodies always interfere with the credit policies of a monopoly. On the other hand, monopolies themselves are not bothered by debt levels, as they are the providers of the services. This also implies that they can disconnect ones service if ones fail to pay for it.

In manufacturing and commercial firms, accounts receivable is among the largest and liquid assets. According to Anderson, (2000) a properly managed accounts receivable portfolio can expedite cash flow and support corporate cash requirements. Companies have traditionally viewed accounts receivable as a basic function. They are beginning to realize, however, that improving the process can lead to significant financial gain for the company. Fewer outstanding account balances mean fewer bad-debt write-offs and enhanced profitability. In communication companies, the observed emphasis on turnover by concentrating on recruitment of customers has resulted on less emphasis on credit and debt management. Ironically, this has put the profit of these organizations at risk. Brown, (2003) notes that with revenue leakage occurring throughout the industry and cost spiraling as demand for even more sophisticated services increases, some companies may be facing a crisis if they fail to address the credit management problem.

In establishing an optimum credit policy, an organization must consider the important decision variables, which influence the level of receivables and the impact of such decision variables on turnover. In this regard, the major controllable decision variables include Credit standards and analysis, which according to Horne (1993) set the criteria a firm follows in determining which customers qualify for credit extension; credit terms which stipulates the conditions under which the organization sells on credit to customer. For example, the decision on whether or not to offer discount, credit period and credit limit, and collection policy, which lays down clear-cut collection procedures geared towards ensuring timeliness and efficiency in debt collections. Credit policies vary from one organization to another or even in different departments within an individual firm; a firm's unique operating conditions dictate the kind of credit policy to adopt. Brealey and Myers (1988) suggest that if services are offered on credit, the sale is not complete until the accounts receivable is collected.

As we move forward into an age of intense technological advances and in the face of stiff competition, less emphasis has been put on the need to control the granting of credit. Furthermore, managers' performance evaluation based on turnover is an incentive to managers to sell on credit. Consequently, there have been some spectacular clashes of companies enticed by the need to sell more products to any customer, at the expense of failing to ensure that the customer is a fair trade risk and to recognize that funds need to be collected efficiently as suggested by Schall and Haley (1991). In fact, there has been, and in some cases still is, a distinct lack of enthusiasm to challenge customers to settle debts that are due for payment, in the mistaken belief that to do so would lose the business.

In Kenya, for instance, many financial institutions have collapsed due to among other factors, poor lending policies. Institutions such as African Credit Finance, Trade Bank, Post Bank Credit and Euro Bank are a few examples. Additionally, Kenya Commercial Bank and National Bank of Kenya Ltd also underwent restructuring to save them from imminent collapse due to non-performing loans. The increase in bad debts provisions continued to erode the banks profitability in Kenya and the growth in bad debt provisions has also led to corresponding decrease in after tax profit (attributable earnings), (Financial Standard, 2000). The bad debts problem transcends across industries in all the sectors of the economy from service, agriculture, financial, hospitality to educational institutions. In this regard, as established from the Annual Report and Accounts (2007) KPLC is not an exception.

A perusal of the company's operations manual and procedures confirms that there are clear standards in relation to credit management. KPLC has in place a credit control policy which outlines the customers vetting process, requirements of a customer prior to obtaining an electricity account, payment details, temporary service provision and legal action in instances of default. Other business development priorities and terms and conditions that should be adhered to before credit is approved are also incorporated. However, KPLC still has a large provision for bad debts amounting to Kshs. 2.8 billion as is evident from the Annual report and accounts (2007) this is out of the total outstanding debtors' balance of Kshs. 10 Billion, which implies that the machinery for follow up for non paying customers is not effective.

1.1.1 Profile of KPLC

The Kenya Power and Lighting Company Limited (KPLC) was created in 1977 through an act of parliament to take over the assets and responsibilities in Kenya of the then East Africa Power Company, following the collapse of East African Community. The corporation was later split into two; the Kenya Electricity Generating Company (KenGen) and The Kenya Power and Lighting Company Limited (KPLC). KPLC specializes in transmission and distribution while KenGen concentrates on electricity generation (Energy Act, 2006). By the nature of its operation, all KPLC electricity sales are on credit thus customers are billed on consumption and are given a due date by which to make payment. Since all electricity sales are on credit, the firm needs to have a stringent credit policy with emphasis on collection of accounts receivable.

1.2 Problem Statement

In the commercial world, management of accounts receivable has significant implications on the financial health of organizations. It is imperative to strike a balance between increased sales and the risk for bad debts. Gitman (1997) shows that the probability of bad debts increases as credit standards are relaxed. Firms must therefore ensure that the management of receivables is efficient and effective.

From the statistical information in the Annual report and accounts (2007), on average, out of the monthly billing by KPLC, approximately 15% of the outstanding debt is rolled out to the subsequent month thus accumulating the accounts receivable continually. The average debt collection period or the debtors' days for 2007 increased from 106 days for the financial year ended 30th June, 2000 to 152 days in the year ended 30th June, 2007. The credit terms of KPLC stipulates that accounts fall due three weeks after the billing date. The due date for the accounts rendered is clearly stated in the invoice and consequently, any customer in breach of this requirement is disconnected from receiving further services and recovery measures immediately undertaken. Despite this, we still see growth in bad debts. This kind of problem requires a review or evaluation of credit management policies and practices of KPLC.

The dismissal performance on collection of receivables clearly demonstrates that the company's credit management system has not been effective in mitigating credit risks and timely follow up of debtors. The aim of this research is to find out the reasons which have led to the large

outstanding debt position and to further establish if there is any relationship between the debtors' problem at KPLC and the existing credit policies by reviewing its credit management practices and bench marking this against the ideal practices.

However, the credit management crisis is a worldwide problem. In Kenya, empirical and case studies have been carried out on credit risk management in the agricultural, financial and publishing sector respectively. Njiru (2003) studied Credit Risk management by Coffee Cooperatives in Embu District while Kabiru (2002) studied on the relationship between credit risk assessment practice and the level of non-performing loans of Kenyan Banks. In addition, Mutwiri (2003) studied the use of 6C's credit risk appraisal model and its relationship with the level of non-performing loans of commercial banks in Kenya and Osman (2003) studied the credit management policy of Nation Media group focusing largely on its distributors.

So far studies done do not focus on credit management in the service industry in Kenya and more particularly within the energy sector. This study therefore addresses the application of the credit management procedures in KPLC by reviewing various variables such as the existing credit standards, credit terms and collection policy and assess there adequacy and effectiveness in mitigating against growth in account receivables. It further sought to establish the reasons which have led to among other factors the high average debt collection period of the company, high provision for bad debts and subsequent write-off and the increasing debtor's level.

Thus, the decision to undertake a similar study in KPLC was borne out of its vulnerability to credit risk exposure added to the fact that the company is a major player within the service industry.

1.3 Objectives of the study

The objectives of the study are;

1. To evaluate current credit management practices at KPLC.
2. To asses the effectiveness of credit management practices at KPLC; and,
3. To asses the efficiency of credit management practices at KPLC

1.4 Importance of the study

Receivables form an important part of the organisation's assets. It is for this primary reason that utmost care must be taken to ensure efficient and effective management of debtors. This study will therefore be useful to the following:

1.4.1 Management of KPLC

The results of this study are important in that it will enlighten the management on the effectiveness of its credit management practices and recommend measures for improvement.

1.4.2 Researchers and Scholars

The study will add to the body of knowledge in the finance discipline, form a basis for further research in the service sector in particular, and credit management in general.

1.4.3 Credit Managers

Credit managers will find the study useful in deciding whether to give discount for prompt payments or not. They will also find the study useful in deciding what evidence are needed for indebtedness, which customers are likely to pay their bills, how much credit you are prepared to extend to each customer and the system of collecting the money when it becomes due.

1.4.4 The Government

The government will use the study in designing the taxation policies for firms in the service industry particularly in relation to receivables and bad debts.

1.4.5 The society

The society would be able to know if KPLC is credit worthy and that it will continue to provide the services to the public.

1.4.6 The regulatory authority

The regulatory authority would benefit from the research as this would inform policy formulation mainly in relation to tariff setting and the planning of receipts in form of levies to the regulatory authority.

CHAPTER TWO LITERATURE REVIEW

2.1 Credit management

Credit is the ability of a business or individual to obtain economic value on faith, in return for an expected future payment, Christie and Bachuti, (1981). Trade credit, involves a joint commodity-financial transaction whereby the exchange of good is separated in the time from the exchange of money (Lee and Stowe, 1993). In effect, goods and services are exchanged for a loan, which is *subsequently exchanged* for cash. Unsecured open account trade credit represents a substantial figure on most corporate balance sheets. Studies suggest that accounts receivable, as a percentage of total assets, are approximately 21% for US manufacturing corporations (Main and Smith, 1992), 19% for large UK companies and over 30% in small/medium-size UK firms (Wilson et al, 1995). Moreover, the unsecured nature of most trade credit managements generates significant corporate exposure to the delinquency risks of slow payment and debt default.

The message emerging from prior studies is that trade credit is extended for a variety of reasons. A firm's credit management policy and application should reflect this diversity and provide a framework for consistent credit decisions, compatible with credit goals and overall business objectives. Typically, credit policy includes the specification of credit goals and a range of policies covering such activities as credit risk screening credit limits, payment terms, monitoring collection and funding. Credit policy formulation also considers the organization structure of the credit function (e.g. whether to centralize, decentralize, or create a separate credit subsidiary), and corporate contextual variables such as age of the buyer firm, frequency of transactions, product quality, selling channel and industry sector Ng et al, (1999).

The basis of a sound credit risk management is the identification of the existing and potential risks inherent in lending activities. Measures to counteract these risks normally comprise clearly defined policies of the institutions credit risk philosophy and the parameters within which credit risk is to be controlled. The three major policies pertaining to credit risk management include policies aimed at limiting or reducing credit risk; policies of asset classification and policies of loss provisioning as shown by Basel Committee on Banking Supervision, (1999).

According to Brealey and Myers (1988), credit management involves five main steps first, you must establish the terms of which you propose to sell your goods or offer services. Firstly, you should decide on whether to give discount for prompt payments or not. Secondly, you must decide what evidence you need for indebtedness. Thirdly, you must consider which customers are likely to pay their bills. Fourthly, you must decide how much credit you are prepared to extend to each customer. Finally, after you have granted credit, you must have a system of collecting the money when it becomes due.

In considering the extension of credit, Block and Hirt, (1987) suggest three primary policy variables to consider in conjunction with the firms profit objective. They are credit standards, (the firm must determine the nature of the credit risk on the basis of prior record of payment, financial stability, current net worth and other factors), terms of credit (the firm decides on whether to offer discount or not – this will have a strong impact on the eventual size of the accounts receivable balance), and collection policy (an increase in the average collection period may be due to a predetermined plan to extend credit terms or the consequences of poor credit administration).

Transaction cost theory can be applied to credit management, specifically regarding the economic rationale for integrating, or 'internalizing' the credit management function within firms, or entering into market transactions whereby a third party specialist manages the credit operation (Coase, 1937). According to Williamson (1979), it is the superior ability of the firms to reduce human opportunism through hierarchical controls, rather than market mechanisms, that justify the very existence of organizations. Hill (1990) identifies two further conditions under which organizations are superior to sophisticated markets, (i) when transaction outcome are highly complex or uncertain, and (ii) when reputations of transacting parties are hard to establish. Given the routine nature of credit management activity and the availability of credit ratings through credit information companies, it might appear that large elements of credit management activity could be conducted more efficiently through the market than through internal mechanisms. Those elements of the credit function that remain in-house are assumed to be more cost effective than entering into separate contracts with external agents to carry out such duties.

Smith and Schnucker (1994) focus on the transaction costs in the factoring decision, while Mao and Sarndal (1974) broaden the activities to include credit insurance, credit reporting, credit collection and captive finance subsidiaries. This is particularly the case where the credit sale involves a specific investment (whether in time or money) in meeting customer requirements (Williamson, 1979; and Smith, 1987). Given the large amount of capital employed in accounts receivable risky assets, the choice of credit management policies, and whether they are conducted internally or through the market, has important implications to the value of the firm.

2.2 History of credit

At least 300 years ago, credit was used in the civilization of Babylon, Syria and Egypt but it was in medieval Europe that trade developed rapidly on the back of credit facilities. Edwards, (1997) shows that in the 12th century, great trading fairs were held in Europe and merchants traveled from fair to fair buying and selling continuously, so that the supplier at one place would be paid by the proceeds of his buyer's buyer in another place. Credit was widely used in medieval England to sell basic commodities and rich merchants were able to get advantageous discounts by generating ample cash in advance. Trade credit as a significant source of financing business increased in the 18th and 19th centuries when trade expansion was helped by loans from local banks to local firms.

The earliest of business transactions did not include an accounts receivable component. In those days of direct barter, the sales process required no credit checks; vendor and buyer simply exchanged goods or services on the spot. Much has changed since then and the evolution of credit represents one of the most seminal changes. Not only has credit left an indelible imprint on modern business, it has also spawned the accounts receivable function. Mao and Sarndal (1974)

2.3 Foundation of credit management

Sinkey (1992), shows that effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any organization. With the increase in competition and poor economic conditions, firms are compelled to extend credit to increase their revenues. To ensure that these organizations collect their receivables, credit management had to be adopted by organizations. This prompted the need to establish sound credit policies that are cost effective in an attempt to remain competitive and

financially sound in the business world. Edwards, (1997) concurs that poor credit policies have led to financial fiascos resulting into the collapse of a number of organizations due to bad debts. Organizations need to identify measure; monitor and control credit risk and determine how to hold capital against these risks. Measures have to be taken to ensure that they will be adequately compensated if borrowers default

Since exposure to credit risk continues to be a major issue in contemporary financial management, credit managers need to adopt appropriate mitigation measures to curb the risk. Most of the credit problems reveal a basic weakness in credit granting and the monitoring process. Brealey and Myers, (1988) suggest that the formulation of an effective internal credit process could help avoid this problem. Credit risk arises because counterparties may be unwilling or unable to fulfill contractual obligations. Losses due to credit risk however can occur before the actual default when reflected in market prices as shown by Pickford, (2001).

2.4 Credit risk categories and Customer risk assessment

According to Pickford (2001), credit risk is the potential for financial loss resulting from the failure of a borrower or counter party to honor its financial or contractual obligation. Credit risk may be classified as firm specific credit risk (the risk of default of the borrowing firm associated with the specific types of projected risk taken by that firm) or systematic credit risk (the risk of default associated with general economy wide or micro economic conditions affecting all borrowers). Most of the bank failures in the 20th century were attributed to credit risk. Edwards, (1997) points out that because of the potentially dire effects of credit risk, it is important to perform a comprehensive evaluation of a firm's capacity to assess, administer, supervise, control, enforce, and recover receivables, loans, advances, guarantees and other credit instruments. An overall credit management review will therefore include an evaluation of the credit risk management policies and practices of a company.

The Customer risk assessment process involves monitoring and collecting information about customers who intend to get credit. Ross et al (2002) identify aspects of credit risk management function as: credit portfolio management, credit risk management policies, and policies to limit or reduce credit risk and asset classification. A company's lending function should ensure that credit is extended on a sound and collectible basis and funds are invested profitably for the

benefits of shareholders and protection of the depositors. To mitigate these exposures, organizations are expected to have clearly defined policies of the institutions credit risk philosophy and parameters within which credit risk is to be controlled (Ross et al, 2000). However, effective customer risk assessment may be hampered by information asymmetry; borrowers may not provide all the pertinent information about their financial abilities and history.

For most firms with credit policies, cash deposits to safeguard against non-payment and making prepayments are some of the common measures adopted to minimize default. Besides analyzing the customers past payment history to know whether he is likely to pay, lenders can also get assistance from credit rating agencies. Such agencies report the experience that other firms have had with your customer. Financial institutions can also be contacted to find out how they think about your customer's credit standing. Many lenders that use credit scoring systems employ adhoc formulae to establish which customer is a potential credit risk (Brealey and Myers, 1988).

According to Greengard (2003) for most companies, winning the battle for market share and new customers is essential to success. Advertising and marketing executives conjure up elaborate campaigns to entice corporate decision makers to part with their cash. Sales people mine leads and court potential buyers with relentless zeal, yet many of these efforts ignore a basic business truth: Not all customers are equal in terms of honoring obligations.

Managing credit risks remains an essential and challenging corporate function, unfortunately, it is one that is often no more than an after thought. Many organizations give a great deal more attention to retaining customers and snaring new accounts than they do tracking who is paying, who is lagging behind and who might default. However, as the current economic malaise drags on and bankruptcy rates climb, effective credit management becomes an increasingly critical factor in achieving success (Beranek, and Scherr, 1991).

2.5 Customer credit selection and analysis

A common approach to customer credit selection and analysis is the use of the 'five Cs' of credit as an initial screening and risk assessment device. Applying the 'five Cs' involves a review of potential customers' capacity, capital, character, collateral, conditions and competition.

According to Avila (1997), credit analysis requires a formal instrument for measuring the risk originating from the most important “Cs” whereas the decision to lend the money or not has to be made. Credit analysis is, largely, a way to evaluate the inherent risks in providing a loan and credit services. Therefore, in evaluating credit risk it is important to understand the relationship among financial risk, business risk and corporate risk.

Financial risk is related to enterprise’s financial situation and perspectives. It concerns the “C” that represents capital. Business risk is linked to the industry where the firm works. It drives form the “C” which represents conditions and “C” which denotes how the company behaves before its competitors. Corporate risk is pertinent to the company’s structure and activities. It regards the “C” which depicts capacity. Nowadays one can add another “C” by considering competition. According to Compton (1985), competition “includes the vulnerability of a company to others whose new, enhanced or cheaper products may reduce its share of the market”. The framework introduced by Porter (1985) is extremely useful for studying conditions and understanding the nature of competition. However, credit analysis should also expand upon the firm level. The flow of accounts receivable is the lifeblood of every business, and turning the accounts receivable into cash is critical for reducing working capital requirements. One of the best ways to avoid long accounts receivables time-lines is by doing due diligence on your customers up front (McCrea, 2004). By combining early due diligence with close attention to aging receivables and using strategies like keeping backup like credit card numbers on file small business owners can get a handle on their account receivables and keep their bottom lines healthy, even when customers are dealing with their own economic challenges.

A critical aspect in the granting of trade credit is the control of risk of bad debt losses. Financial writers have generally measured the risk by the expected value of the probability distribution of these losses. Cohen and hammer (1966), for example, define the return on credit sales as the difference between gross profit and expected bad debt losses. Similarly, (Christie and Bachuti, 1981) suggest that a firm should make a credit sale to a customer only if the operating profit on sales exceeds the expected bad debt losses. According to the study carried out by Mao and Samdal (1974), the results indicate that the prediction of bad debts is best if a firm’s customers are few and there is a wide distribution of sales among them. The prediction will however, not be accurate if the default risks are closely correlated, for example, when sales are concentrated to a

few large customers. Arguably, the safest way of reducing risk is to restrict the credit terms. For example, most firms regularly require high risk customers to pay prior to delivery, in full or part. In their findings out of the studies conducted in UK companies, (Wilson et al, 1995) state that the role of the sales team often extends to cash collection, 68% of firms involving sales staff in the collection procedure, employed by 29% of firms, was viewed as particularly attractive by those firms.

2.6 Critical success factors in credit and collections

Profit maximization should be the goal of credit and collection. This requires aligning the credit department's objectives with those of other departments in the company. Instead of being the "Stop sales department", the credit department can instead be a full partner in the company's success. This also means that a certain level of credit department failure, slow paying or bad debt accounts, will become apart of the company's business plan.

According to Schmidt (1997), some of the critical success factors in reducing payment risks in receivables are: elimination of barriers to payments by offering customers multiple payment options, flexible billing cycles and incentives to pay early, creation of a single point of contact for all incoming customers calls regarding payments, and use of technology to route the calls to the appropriate service representative or automated activities; electronically receive and post customer payments to the billing system in real time to reduce processing costs and expedite cash flow; ensure that all employees with customer contact work together to deliver a consistent message to the customer regarding company policy and goals, use credit scoring to assign the customer a credit rating that will trigger appropriate sales and collection treatment; prioritize delinquent accounts for collections follow up, allocate appropriate collections resources, and provide real time access to customers' information; use performance measures to select and monitor outside collection agents, if it is cost justifiable to employ them; develop, monitor and motivate collection specialists using individual and team performance measures use credit and collection process to enhance customer satisfaction (McLemore 1996).

Executives at many organizations tend to look at the receivables process as a very basic and standardized function. However, there is a growing realization in corporate finance circles that considerable cost savings can be generated by benchmarking accounts receivable. And, perhaps

Even more important, the company's customer relations could improve dramatically. Using best practices can streamline the collections process, accelerates cash flow, reduces costs and improves customer relations. According to McLemore (1996), many companies that have benchmarked the accounts receivable process have adopted the best credit practices. They use the credit and collections process to enhance customer satisfaction. Some world-class organizations actually send their credit personnel with their sales representative to explain credit terms to clients; continuously update customers' credit ratings using a behavioral scoring system. Monitor customer payment behavior, usage activity and total customer exposure vs. assigned credit lines by integrating technology; electronically receive and post customer payments to the billing system in real time. This reduces processing costs and expedites cash flow, move to automatic invoicing and adjustments posting, create a single point of contact for all incoming customers regarding payment and use technology to route the calls to appropriate service representative or automated activities.

An article published in IOMA Report (2005), stated that unhappy customers tie up their suppliers' cash by creating high levels of accounts receivables and not only do these disgruntled clients tie up cash, but they also waste time, cost money and aggravate your staff. These problems can be avoided with little planning and motoring. Nisberg (2004), cited some of the accounts receivables best practices as follows: Know your clients individually, particularly the decision maker, keep communication open so you know the intentions of the debtor; differentiate between potential bad debts from sound clients, among the red flags are: payments by post dated cheques, or constantly late payments, or both; frequent change in management, low level of liquidity; a frequent change of banks; when more time is requested on a payment, let the client know that time is money and that they may be able to buy time by providing a down payment and scheduling the balance of the debt, tighten your collection policy. Adhere to strict credit limitation, and avoid providing extended payment terms; resolve disputes quickly and amicably; pursue partial payments, with request for balance, keep your records current to support claims, make customers aware of your credit policy.

2.7 Monitoring accounts receivables

The most commonly employed performance measure is debtor days, employed by 84% of responding firms according to the study carried out by Mao and Sarndal (1974). Other popular

monitoring methods include aged debt reports and cash collection performance against targets or variance analysis.

Gallinger and Iffinderhe (1986) have stated that traditional monitoring techniques of days sales outstanding (DSO) and schedules still appear to be the primary vehicles used by analysts to evaluate a firm's accounts receivable balance. Some scholars have however highlighted deficiencies in these conventional calculations. As discussed by Stone (1976), many analysts recognize that receivables can be influenced by sales effects, and they attribute this to seasonal or cyclical factors. One way to overcome these problems is to abandon DSO measures and aging schedules and rely on balance fractions or payment. Another approach is to use an accounting based variance analysis model. The variance analysis model compares actual against budgeted receivable performance. A real advantage of using a budget is that it can overcome the many problems inherent in historical data. Assuming that management has conscientiously calculated the budget amounts, then conditions expected to exist during the budget period are incorporated into the accounts receivables budget. This is obviously better than comparing actual performance to some prior period that may not be representative of conditions prevailing during the budget period (Besley, and Osteryoung, 1985).

Additional advantages of a variance methodology are as follows: First, errors in sales projections and collections forecasts are readily evident. This provides management with the opportunity to assess budget assumptions and improve the quality of forecasts. Second, DSO calculation is independent of both sales and averaging period and any sales trend, thus overcoming criticisms of traditional measurement techniques. The independence of the DSO calculation allows identification of a collection experience variance and a sales effect variance. Third, the sales effect variance can be decomposed into components that allow the influence of sales on receivable balances to be understood.

Average Collection Period (ACP) analysis is a widely used technique for examining the effectiveness of a company's credit policies. However, it is not without its problems, the analysis can send false signals to management that the credit policy may be a problem when in reality it is not. Unless supplemental analysis is done, the ACP technique may not give an accurate picture of what is happening in this area IOMA report June (2001).

The main Disadvantages of ACP Analysis are; First, ACP analysis is sensitive to the level of accounts receivable on the date when it is measured and the basis used for calculating sales per day. Thus, any seasonality in sales and corresponding level of receivables will affect the computed ACP. Second, where the ACP is used to monitor receivables over time, sales per day must be calculated to reflect the true experience of the company through time. However, what the period of time should be to determine this figure is not clear. The general problem is one of "aggregation" of data. (Besley, S. and Osteryoung, 1985)

Christie and Bachuti, (1981) state that directors and executives should keep a close eye on changes in their company's DSO (Days Sales outstanding). DSO, a useful measure of the quality of receivables, indicates the amount of time it takes to turn receivables into cash. DSO is calculated by dividing Accounts Receivable by average Revenue per Day. Lower DSOs are generally more desirable. Rising DSO is usually a sign of trouble and points to the likelihood of future revenue problems. A lengthening in a company's DSO is only rarely connected to a financial weakness of its customers. Sometimes, DSOs will increase due to an unusually high volume of sales booked just before the close of the period. Some troubling reasons for rising DSOs include: large scale products or service disputes and customers refuse to pay until the problems are resolved; products or services have been oversold, and customers refuse to pay until the unfulfilled promises have been met, extended payment terms may be offered that allow the buyer to delay full payment long after everything necessary has been done for the vendor to earn the revenue, other overly aggressive revenue recognition practices.

Receivables Aging schedule – This schedule is a listing of debtors by aging category. Analyzing this schedule allows accounts receivable management to spot problems in accounts receivable early enough to protect the organization from major revenue problems. It may also assist in highlighting individual delinquent accounts. In a Research conducted by Better Payments Practice Group (BPPG) and reported on Auditor-General's Audit Report No. 29, management of accounts receivable in the commonwealth, in Australia, the following statistics compare the common benchmark against the best practice.

Table I: Suggested performance indicators

INDICATOR	COMMON BENCHMARK	BEST PRACTICE BENCH MARK
Effectiveness measures		
Debtors turnover i.e. average time to collect	30 days	23 days
Debt written off as a percentage of total debt	10%	1%
Percentage of debts collected within terms of trade	50%	80%
Debtors by age group as a percentage of total debt		
Aged 30 to 60 days	25%	10%
Aged 60 to 90 days	15%	5%
Aged 90 days	10%	5%
Proportion of debts settled by electronic means, i.e. EFT	10%	100%

In addition to measuring the effectiveness of the accounts receivable process as a whole specific debt collection technique and their effectiveness should be monitored. This information can be used when assessing alternative debt collection strategies. It is of essence when conducting assessments of this type to be cognizant of the costs of the relative collection strategies.

2.8 Qualities of an effective credit management system

A company's credit process can be grounded in a series of fundamental policies. These may include ultimate business accountability for managing credit risks, consistent standards for credit originating, measurement and documentation, uniform risk measurement standards, a minimum of two authorized credit-officer signature requirements, portfolio limits to ensure diversification and maintain risk/capital alignment and single centre of control for each credit relationship that coordinates credit activities with that client, directly approves or consents to all extensions of credit to that client, reviews exposures, and ensures compliance with exposure limits (Brucaite and Yan, 2001).

Financial risks emanate from adverse movements in economic variables that affect a firm's activities. These adverse movements can reduce income, expected profits, reported value of

foreign assets, increase in foreign liabilities etc. Turbulence in the business environment has created need or increased focus on risk hence management need to develop the capacity to accept and manage risks effectively. A number of high profile risk management disasters necessitated the need for sound financial risk management in the 1990s (Li, 2003). Companies have to come up with process through which they can control the negative outcomes of their financial exposures. Companies are encouraged to have a credit policy in place so that they can monitor their exposure to credit on a continuous basis.

Pickford (2000) indicates that macro-economic factors such as recession or collapse in exchange rates may cause borrowers to default on loans. If lenders do not have adequate information about the borrowers, strategic default can occur. Failure to repay can also be as a result of industry-specific factors or company-specific factors. If equity markets are not well developed, companies may end up with a high debt to equity ratio, which can easily lead to default.

2.9 Debt contracting - the bankruptcy code

The bankruptcy code defines the right and responsibilities of creditors and borrowers in the event of default, anchor the process of coordination, renegotiation, and restructuring for a financially troubled borrower, and formalize the lenders access to the borrowers' collateral (Buttiner, 2001). This code balances the conflicting forces. On one hand, the integrity of a debt contract must be upheld so that lenders have an incentive to lend money in exchange for debt contracts. This implies a strict enforcement of the absolute priority rule, which respects the seniority of debt holders over equity holders in their rights to residual cashflows. On the other hand, the code must prevent the enforced liquidation of companies that suffer nothing more than a lack of liquidity. To prevent their liquidation, it may become necessary to inject additional capital into the distressed company, which may also be forthcoming at a higher priority than existing debt claims.

The bankruptcy code differs from country to country. The perceived efficiency, enforceability and fairness of a particular country's code have a major influence on the development of credit markets. Investors' perception of the code as 'borrower friendly' or 'lender friendly' has important implications for the spreads. The bankruptcy code in the USA is regarded borrower friendly since the debtor remains in control. The code in UK is considered lender friendly since it

operates on the principles of receivership (Pickford, 2001). In most countries, the code has three important provisions: First, when a company seeks protection under the bankruptcy code, all payments to creditors are suspended. This ensures that there is no “rush to the exit” by creditors who may have an incentive to cut a deal with the borrowers at the expense of other creditors.

Second, the judicial authorities play an active role in supervising the process of reorganizing a bankrupt company’s affairs, major decisions cannot be taken without the court’s approval. If the court is not satisfied with the reorganization plan proposed by the existing management, it may appoint a new management team (Pickford, 2001).

Finally, under the US bankruptcy code the borrower remains in control on bankruptcy filing, though at the request of the creditors the bankruptcy court can change the company’s management. The rationale for this provision is that the borrower is in a better position than creditors to turn around the company and should therefore get the first shot. The receivership doctrine works in reverse, giving creditors the first opportunity at reorganization (Holtham, Clive and Evans, 1993).

2.10 Models of credit risk

Lenders and borrowers use models of credit risk to help address various issues. Various investors are interested in knowing the spreads that are demanded for investing in credit risky securities such as loans and bonds (Holtham, Clive and Evans, 1993). The structural approach to credit risk focuses purely on borrowers’ balance sheet and calculations of the value of the borrowers’ assets and liabilities. At any point, the model tells the user how close the asset value of the borrower is to the default trigger, and delivers the estimate of the default probabilities based on information found in the balance sheet. Market factors can also be contained in the model. The structural approach suggests the following relationship; the value of credit risky debt equals the value of risk free debt less the value of the put option to default. This means that the spread between the government bond price and the corporate bond price with the volatility of the underlying asset of the company, the spread increases with leverage and the spread typically increase with time to maturity of the loan.

The structural approach focuses on the bankruptcy code, liquidation costs and the bargaining power of lenders and borrowers. The findings of Holtham et al, (1993) show that it is based on the idea that lenders and borrowers prefer to renegotiate debt contracts rather than liquidate the company, which is costly to both since the lenders know beforehand that reconstructing will occur later, they typically charge a premium in the pricing of loans. The presence or absence of a bankruptcy code, its perceived “friendliness” to lenders or borrowers, and the existence of a credible threat serve to set the bargaining boundaries and hence the spread. Reduced form models do not specify who the lenders or borrowers are, but concentrate specifically on the probability of default and the recovery rates. The lynchpin in this class of models is the absence of arbitrage. In other words, these models operate under the assumption that investors behave rationally and do not “leave any money on the table.’. The focus of these models is the time to default. By their very nature, default is a surprise event in the reduced form models. These models are particularly valuable in the pricing of credit derivatives (Pickford, 2001).

2.11 Credit policy

The term credit policy is used to include all the company’s systems and include credit selection, credit standards, credit terms and collection policy. According to Brown (2003), the first step in credit management for any company in any industry is to define its credit policy. This must include customer acceptance criteria, credit vetting, credit limits and payment terms. The board must define the balance for the business between the potential profitability of the customer, the desire to retain the customer whilst maximizing their use of products and services and the exposure to potential bad debt. From this stems the customer acceptance policy with the boundaries of what the company does, and does not want to do business with. The balance between the need for market share and growth on one hand, and profitability on the other, will determine the appropriate element of risk in taking on new customers.

Once this has been established, the customer acceptance policy needs to be updated as circumstances change. An excellent example of what happens when this does to take place is the UK mobile industry of eight years ago when the rush for market share between the competing industry players was crucial and profitability was definitely not a consideration. Credit checking was temporarily dropped in haste, and service providers repented at their leisure, some of them going out of business under the resulting debt burden (Holtham, Clive and Evans, 1993).

According to Rowe (2004), some of the key elements of an effective credit management policy are as follows:

Check a new customer's creditworthiness before drawing up a contract; set strict limits and stick to them; prepare unambiguous written contracts and/or terms and conditions of trading; involve the sales force in negotiating the payment terms and ensuring that they are understood and agreed at the start; make sure that you know and comply with the procedures used by your customers' buying and accounts department; initiate and maintain close contact with your customers, particularly with the person responsible for paying your account try to create a rapport so that you are on top of the list to be paid even when money is tight; make regular credit checks on customers; ensure that all dispatch notes and invoices are accurate and delivered to the right person at the right time; put a stop on supplies to customers who are not paying. In addition, use their desire for service to urge them to pay; send regular reminders and chase payments persistently by phone, fax, e-mail and visits to customers, if all else fails, place the matter in the hands of a debt collection agency or lawyers.

The main role of credit policy is to provide a framework for consistent credit decision compatible with the goals of the credit function. The credit policy requires regular review and clear documentation. According to (Wilson et al, 1995) a survey conducted, to establish the causes of late payments in the UK found that virtually all (94%) firms have a credit policy manual, although only 54% regard it as 'fully documented'. As might be expected, this is considerably higher than the 35% of small/medium sized firms with a written credit policy as found by Wilson et al's (1995) survey. Credit practices are highly visible within the industry and form an important element in perceived corporate image. It is not therefore surprising that over three quarters of responding firms (77%) included an ethics code on credit management practice within their policy statement.

Among the benefits of a written policy are that the policy will reduce bias and subjectivity in credit decisions being made, the process becomes more predictable (something sales and senior management will appreciate); and since everyone understands the ground rules, exceptions will be made based on business considerations (Dennis, 2004).

There are a number of advantages/valid reasons for inventing the time and effort to develop a written credit policy (Wallis2002). Among the more important reasons are that a written policy is one way to ensure consistent credit decision meaning that all customers will be treated fairly; it can be used as a training tool; it can be used to help evaluate or benchmark job performance against established standards documented in polices and procedure manuals; the manual can be presented to senior management to ensure consistency between credit department operations and management operations. A policy must be relevant to the way the credit department actually operates. To be relevant, the credit policy must be current, and must be kept current.

According to Wallis (2002), among the alternative types of credit policy that a firm can choose from are strict analysis of risk and strict collections, strict analysis of risk with liberal collections, liberal analysis of risk and vigorous collection effort, or liberal analysis of risk and liberal collections.

Strict analysis of risk and strict collections involves only high credit rated accounts are accepted, and very little variation from terms is allowed. The analysis of risk is thorough; collection efforts require a greater effort, and selling may be restricted. However, the increased effort may pay sizeable dividends in the form of improved accounts receivable turnover and minimal bad debt losses, leading to increased cash flow and profitability (Wallis 2002).

On the other hand, strict analysis of risk with liberal collections is somewhat more liberal in its collection procedures (Wallis 2002). It concentrates on the selection of good credit risk but does not aggressively press payment. The assumption is that the good risks will, on average, pay their bills within terms; any additional time is less expensive to carry than the cost of following up account that are only a few days past due. If your cost of capital is high, this type of policy may not be wise, especially when customer orders involve sizeable amounts. A more prudent course would be to follow collections closely.

In addition, liberal analysis of risk and vigorous collection is another method (Wallis 2002). The credit analysis is liberal, so nearly all customers that apply will be accepted. But once the sale is made, close control is kept over collections. This type of policy would normally be followed in

organizations selling high mark up, low unit price goods or services. The cost of credit analysis is relatively low in this type of credit policy, but collection costs are usually quite high. Another method that companies employ is the liberal analysis of risk and liberal collections (Wallis 2002). Very few lines of business would find this policy profitable to operate. One advantage might be that it tends to lower credit costs. Yet the costs related to carrying receivables for long periods coupled with a resulting increase in bad-debt expense more than offsets the savings. The principal motivation for a company adopting this policy is to attain maximum sales volume. For this policy to be effective, profit margins must be set high enough to counter the slow turn in receivables resulting in bad debt losses.

2.12 Trade credit limits and their Significance

Companies should establish and develop scorecards from which credit limits are set for all new customers (Besley and Osteryoung, 1985). Even on an unsophisticated billing and credit management system it should be possible to assign basic categories of follow up activity such as good average or poor. Technology that is more sophisticated will allow setting of individual credit limits and contacting customers when they reach the limit. What is more, experience has shown that this is not necessarily the sales and marketing disaster they fear because many genuine residential customers are grateful for advice of what they are spending and even for suggesting that they be placed on a more advantageous/appropriate tariff/scheme.

A credit limit is the maximum credit a lender will provide a borrower at one time. A survey focusing on credit limits by Besley and Osteryoung's (1985) found that: (i) a majority of firms use credit limits (ii) the primary rationale is to control exposure risks, and (iii) Subjective judgment is the predominant limit-setting method. Credit limits represents firms' responses to problems in developing and monitoring selling relationships. Studying credit limits shows how firms perceive their credit policy problems and how they attempt to resolve them.

The main question is why are credit limits used? According to Beranek and Scherr (1991), there are three generic explanations for use of credit limits.

2.13 Credit limits and risks control

Review of finance literature identified four other potential explanations for credit in terms of risk or uncertainty (Brown, 2003). These are not necessarily mutually exclusive (i) Credit limits hedge uncertainty with respect to the likelihood of default or delinquency (ii) since default of a major customer can increase the probability of the seller's default in a domino effect, credit limits reduce that risk by limiting receivables from such customers (iii) Granting credit to a buyer with a higher beta than that of the seller increases the seller's asset beta, thus increasing the required rate of return on the entire seller's asset (iv) Credit limits are really a manifestation of agency problems in monitoring the performance of credit managers, and not actually "risk control" at all.

The first three of these rationales lead to optimal values for credit limits based on shareholder wealth maximization; procedures to determine these optimal limits are given in the respective references. In the fourth rationale, credit limits results from managers conflicting objective to grant credit and to limit bad debt. The resulting credit limits will depend on the relative strengths of the two incentives within a firm (Brown, 2003). A major task of credit management is to control credit investigation expenses (Beranek and Scherr, 1991). Since such costs are likely to increase with the amount of information gathered, the optimal quantity of information collected will depend upon amount owed, profit margin, information costs and default and/or delinquency probabilities. Credit limits can be set at the maximum credit grantable upon prior investigation without triggering additional investigation costs.

There is strong support for the idea that a major function of credit limits is to control credit investigation expenses. Most credit managers report that violation of an existing credit limit triggers additional investigation expenditure. Several aspects of credit limit policy vary significantly with sales per customer, and these variations agree with what would be expected if limits were used as investigations controls. This is "risk control" in the sense that a credit investigation produces information regarding a buyer's ability to pay (Beranek and Scherr, 1991).

Debt management follow up/dunning techniques have to be proactive, not reactive, and must be constantly reviewed and improved. Yet, amazingly, only two thirds of communications

companies follow the basic credit management rule of trying out new follow up/dunning techniques. Everybody uses letters and phone calls for chase overdue payment ns but there is a surprising lack of use of new techniques, or of mixing and matching follow-up methods to keep debtors on their toes (Beranek and Scherr, 1991).

2.14 Credit management at KPLC Ltd

The Credit Management Unit of KPLC Ltd is a fully-fledged Unit headed by a credit manager who reports to the Chief Finance Officer. The unit is controlled from the headquarters offices in Nairobi and it coordinates the credit management functions of all the regional offices spread countrywide. The main role of the headquarter unit is to set operational and policy guidelines, monitor performance through periodic reports and oversee the administrative functions of the regional offices.

The key functions of the Unit involve Credit vetting, credit rating, credit control, debt follow up and management. Though the vetting, rating and control functions are partially-automated, they are still largely manual. The debt follow up aspect involves correspondence through the E-mail, telephone, letters and physical visits. The credit manager is responsible for four Credit control officers in charge of Corporate Accounts, personal accounts, government and parastatal accounts respectively. Reporting to each of these officers are regional credit controllers, two Assistant credit controllers several clerical officers. The regional offices report to the Regional mangers on credit functions involving their respective regions and to the Credit manager on policy and guidance on any exceptional issues.

The role of Headquarter is to monitor regional debt collection performance, initiate and execute debt collection strategies for the regions; monitor the effective implementation of credit control policies, and coordination of usage of debt collection instruments such as disconnections in the regions. The head office also handles the role of operational interface between customers and the company through involvement in all credit extension arrangements for both corporate and non-corporate customers. Equally important is the need to create excellent relationships with all customers and provide advisory services to management on credit control and debt collection strategies.

The regional offices on the other hand are responsible for the implementation of the company's credit policies within the regions in conjunction with headquarter credit control and debt collection branch and ensuring an operational interface between customers and the company through involvement in all credit extension arrangements for corporate and non corporate customers.

There are several reports, which are generated periodically to monitor the performance of the department. These reports are corporate debt collection reports. This is a weekly report and it constitutes revenue collections for regional offices and the headquarters. The disconnection impact analysis report is done on regional basis and it shows decline/growth measurement history of debt. For example, when initial bill was produced; individual restoration reports categorized as restored after full, part or no payment at all; statistics as to likely delinquencies and effort to collect before delinquencies. The post disconnection performance report is also on regional basis and is compiled every month after the disconnection impact analysis report. The report shows the analysis of aging and collection; summaries of agreements; credit arrangements and terms of agreement; exceptional report on non-conformance cases and action being taken. Final accounts reports – it indicates the collection performance, agreement and terms of agreement and exceptional report on non-conformance cases and action being taken.

2.15 Conclusion

In the commercial world, management of accounts receivable has significant implications on the financial health of organizations. It is imperative to strike a balance between increased sales and the risk for bad debts. Gitman (1997) shows that the probability of bad debts increases as credit standards are relaxed. Firms must therefore ensure that the management of receivables is efficient and effective. However, the credit management crisis is a worldwide problem. In Kenya, empirical and case studies have been carried out on credit risk management in the agricultural, financial and publishing sector respectively. The local studies show that the researchers have focused on credit management by the private sector. For instance, Njiru (2003) studied Credit Risk management by Coffee Cooperatives in Embu District while Kabiru (2002) studied the relationship between credit risk assessment practice and the level of non-performing loans of Kenyan Banks. Mutwiri (2003) in his part studied the use of 6C's credit risk appraisal model and its relationship with the level of non-performing loans of commercial banks in Kenya.

Finally, Osman (2003) studied the credit management policy of Nation Media group focusing largely on its distributors. So far studies done do not focus on credit management in the service industry in Kenya and more particularly within the energy sector. This study assessed the application of the credit management procedures in KPLC by reviewing various variables such as the existing credit standards, credit terms and collection policy and their adequacy and effectiveness in mitigating against growth in account receivables. It further sought to establish the reasons which have led to among other factors the high average debt collection period of the company, high provision for bad debts and subsequent write-off and the increasing debtor's level.

Thus, the decision to undertake a similar study in KPLC was borne out of its vulnerability to credit risk exposure as a result of total sales being on credit in addition to the fact that the company is also a major player within the service and energy sectors.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This research is a case study and the method has been chosen because it enables the researcher to probe and obtain an in-depth understanding of a particular phenomenon. This design is valuable for detailed analysis as Schlesselman, (1982) concurs that a case study often provides focused and valuable insights to a phenomena that may be vaguely known and less understood.

3.2 The population of the study

The population of interest was personnel in the credit department of KPLC both at the headquarters and all regional offices. According to the department's organization chart it is categorized into four units, thus; domestic customers, large power/industrial consumers, government agencies and strategic consumers all with a total of 152 employees. This classification is based on the volume of electricity consumption or the nature of business/activity the customer undertakes.

3.3 Research Sample

A stratified sample of personnel was drawn for the purpose of administering questionnaires. Stratified sampling is a method by which subjects are grouped according to strata such as age, gender or other characteristic. Schlesselman (1982) suggests that using this method, subgroups of interest can be defined and equal numbers of subjects sampled for each group and the subjects would be recruited from each subgroup. Each credit unit comprised a stratum for this research. The sample of the study was respondents within Nairobi offices and the questionnaires targeted the heads of credit units only. The firms statistical information in the Annual reports and accounts (2006) indicate that more than 40% of electricity consumption in all the categories is in Nairobi

3.4 Data collection:

Qualitative and quantitative research methods were complimentarily used in order to have a more objective interpretation of data. The combination of the methods used can provide a rich portrait of the phenomena under study. Gilmore and Carson, (1996) support this view and believe that the assignment of techniques between both approaches cannot only be beneficial but

also of significant value to the research being undertaken. Data was collected by use of the questionnaire method. Closed and open-ended questions were used to solicit ideas related to the research problem from the respondents. Questionnaires were administered personally in the head office. Specifically, the questionnaires aimed at obtaining background information on Sales Turnover in Kshs, Bad debts in Kshs, Debtors turnover (i.e. average time to collect), Debt written off as a percentage of total debt, Debtors aged 30 to 60 days, Debtors aged 60 to 90 days, and; Debtors aged greater than 90 days. In addition, it sought information on the evaluation of credit management practices by KPLC on debtor's days, Variance analysis, Average collection period (Debtors), Day's sales outstanding and Ageing schedule.

In addition to the questionnaire, the researcher interviewed some of the heads of the units in order to get in depth understanding of the credit management issues that need clarification. The firm's financial reports and accounts as well as operations manual and procedure were also used as a source of secondary data.

3.5 Data analysis

Data analysis was in line with the objectives of the study; to evaluate current credit management practices at the KPLC; to assess the effectiveness of the practises (debt collection and follow up). The study computed mean, the standard deviation and the median for each of the units' debts and bad debts comprised the tabulation and comparison of cross sectional variables across units and over time. It further used the descriptive statistics of the Debtor's days, Average collection period, Day's sales outstanding and ageing schedule. From the results, conclusions were drawn on the effectiveness of the credit management practices at the KPLC. The questionnaire was subdivided as follows in order to ease analysis:

3.5.1 Section A – Background information

This section of the questionnaire was about the demographic profile and was analyzed using descriptive statistics. This enabled one to compare the demographics and diversity across units. The descriptive statistics are mean, variance, and standard deviation. The mean is a commonly used measure of the center of a batch of numbers or the average response on an item by respondents. Variance is a measure of how far the data (or scores for responses) are spread about the mean. Sample variance equals the standard deviation squared. The standard deviation

provides a measure of how spread out the data is. To calculate the variance, simply square the standard deviation value. This allowed for comparison with the industry standards. That is, the data analyzed was compared with the industry standards in order to determine the effectiveness of KPLC in credit management.

3.5.2 Section B – Evaluation of Credit management practices.

This section related to the first objective and required that the researcher establish the characteristics of credit sales and bad debt across the units. The ultimate objective was to classify a unit, through ranking, thus; experiencing low bad debts (1) or high bad debts (0). Thus, we ended up with a categorical response variable with two outcomes, high or low bad debts. The level of bad debts was the categorical variable and credit sales were the dependent variable. Binary logistic regression is most useful when one wants to model the event probability for a categorical response variable with two outcomes. According to Agresti, Alan (1996), *Binomial (or binary) logistic regression* is a form of regression which is used when the dependent is a dichotomy and the independents are of any type. The model used was as follows:

$$Y = \alpha + xa + xb$$

Where; α = constant
 a = Levels of bad debts
 b = Levels of debts

3.5.3 Section C –Evaluation of effectiveness of credit management practices at KPLC

This section related to the second objective and questions were summarized using descriptive statistics but were analyzed using factor analysis. Factor analysis attempts to identify underlying variables, or factors, that explain the pattern of correlations within a set of observed variables. Factor analysis is often used in data reduction to identify a small number of factors that explain most of the variance observed in a much larger number of manifest variables. Factor analysis can also be used to generate hypotheses regarding casual mechanisms or to screen variables for subsequent analysis (for example, to identify co-linearity prior to performing a linear regression analysis) researchers use principal component analysis to help understand the underlying data structure and/or form a smaller number of uncorrelated variables.

3.5.4 Section D – Evaluation of the efficiency of credit management practices at KPLC

In order to evaluate the effectiveness of the credit management policies at KPLC, the researcher summarized the data using descriptive statistics. The researcher analyzed this section by using an accounting based variance analysis model. The variance analysis model compares actual against budgeted receivable performance.

CHAPTER FOUR DATA ANALYSIS AND INTERPRATATIONS

4.1 Introduction

The study set out to address the application of the credit management procedures in KPLC by reviewing various variables such as the existing credit standards, credit terms and collection policy and assess there adequacy and effectiveness in mitigating against growth in account receivables. It further sought to establish the reasons which have led to among other factors the high average debt collection period of the company, high provision for bad debts and subsequent write-off and the increasing debtor's level.

The data analysis is in line with the objectives of the study; to evaluate current credit management practices at the KPLC; to asses the effectiveness of the practises (debt collection and follow up). The study computed mean, the standard deviation and the median for each of the units' debts and bad debts will comprise the tabulation and comparison of cross sectional variables across units and over time. It further uses the descriptive statistics of the Debtor's days, Average collection period, Day's sales outstanding and ageing schedule.

4.2 Background information

Standard deviation is a measure of dispersion around the mean. In a normal distribution, 68% of cases fall within one SD of the mean and 95% of cases fall within 2 SD. For example, if the mean age is 45, with a standard deviation of 10, 95% of the cases would be between 25 and 65 in a normal distribution. The results indicate that the respondents were in from domestic/ordinary customers, strategic customers, government agencies and large power/industrial customers and they represented 25% (Appendix 3). The results also show that the respondents have been working in their credit units for 12 years 15 years 13 years and 9 years respectively each having frequencies of 1 and 25 % . When respondents where asked how many customer accounts handled, they indicated that they handled 1147293 customers, 4650 customers, 5482 customers and 11570 customers. Each represented 25% of the respondents. The respondents were further asked to state the number of staff in their units have the level of education ranging from primary school to post graduate level.

The results as shown in appendix 3 indicate that the 4 units under study employees with the following qualifications, primary (7), O level (43), A level (43), under graduate (50) and post

graduate (7) in addition the respondents indicated that some of the employees have professional qualifications. As indicated in the results (appendix 3) those with accounting (CPA) have 5, CPS (0) and credit management (11). On the other hand only 1 employee has CPA and credit management while none has both CPA and CPS.

4.3 Evaluation of Credit management practices

4.3.1 Domestic/ordinary customers unit

Descriptive Statistics

	Mean	Std. Deviation	N
What is the level of bad debts in Kshs?	1689.3333	3522.57705	6
What is the Sales Turnover in Kshs?	1862.0000	4003.93142	6
What is the level of debtors aged 30 to 60 days?	1930.5000	4148.42716	6
What is the level of debtors aged 60 to 90 days?	2229.6333	5152.46800	6
What is the level of debtors aged > 90 days?	2839.6667	6244.44623	6

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	1.000 ^a	.999	.998	147.29350	.999	952.574	3	2	.001

a. Predictors: (Constant), What is the level of debtors aged > 90 days?, What is the level of debtors aged 30 to the level of debtors aged 60 to 90 days?

SOURCE: Research Data

The table above on descriptive statistics indicates the mean values of bad debts, sales / turn over, debtors turn over, and levels of debtors aged 30 to 60, 60 to 90 and those over 90 days. The results indicate that the average level of bad debts is Ksh 1689.33 millions, during the period between 2002 and 2007 the average sales / turn over averaged Ksh 1862.00 million. Furthermore the levels of debtors aged 60 to 90 averaged 2229.63 millions. On the other hand the amount of debtors aged above 90 days has a mean value of Ksh 2839.67 million.

R Squared change is the change in the R^2 statistic that is produced by adding or deleting an independent variable. If the R^2 change associated with a variable is large, that means that the

variable is a good predictor of the dependent variable. The study shows that the R Squared change is insignificant (R square = .999 and R square change = .999). This indicates that KPLC debt collection policy pertaining to domestic/ ordinary customers is independent of the levels of bad debts.

4.3.2 Strategic customers unit

Descriptive Statistics

	Mean	Std. Deviation	N
What is the level of bad debts in Kshs?	210.1167	182.46808	6
What is the Sales Turnover in Kshs?	175.6500	175.93423	6
What is the level of debtors turnover (i.e average time to collect)?	224.1333	230.92048	6
What is the level of debtors aged 30 to 60 days?	281.6667	224.05595	6
What is the level of debtors aged 60 to 90 days?	203.9167	155.70306	6
What is the level of debtors aged > 90 days?	211.3833	159.87868	6

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	1.000 ^a	1.000	1.000		1.000		5	0	

a. Predictors: (Constant), What is the level of debtors aged > 90 days?, What is the Sales Turnover in Kshs? debtors aged 30 to 60 days?, What is the level of debtors aged 60 to 90 days?, What is the level of debtor average time to collect)?

SOURCE: Research Data

The table above on descriptive statistics indicates the mean values of bad debts, sales turn over, debtors turn over, and levels of debtors aged 30 to 60, 60 to 90 and those over 90 days. The results indicate that the average level of bad debts is Ksh 210.12 million; during the period between 2002 and 2007 the average sales turnover averaged Ksh 175.65 million. The above results also show that the average time to collect the debts is 224 days. The levels of bad debts as indicated in the results above are 281.67 million. Furthermore, the levels of debtors aged 60 to

90 averaged 203.92 million. On the other hand the number of debtors aged above 90 days has a mean value of Ksh 211.38 million.

The study shows that the R Squared change is insignificant (R square = 1.000 and R square change = 1.000). This indicates that KPLC debt collection policy pertaining to strategic customers is independent of the levels of bad debts.

4.3.3 Government Agencies

Descriptive Statistics

	Mean	Std. Deviation	N
What is the level of bad debts in Kshs?	308.6667	354.63653	6
What is the Sales Turnover in Kshs?	352.8333	334.64155	6
What is the level of debtors turnover (i.e average time to collect)?	281.8333	346.64415	6
What is the level of debtors aged 30 to 60 days?	407.0000	420.85389	6
What is the level of debtors aged 60 to 90 days?	420.6667	557.52118	6
What is the level of debtors aged > 90 days?	422.5000	644.10023	6

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	1.000 ^a	1.000	1.000	.	1.000	.	5	0	.

a. Predictors: (Constant), What is the level of debtors aged > 90 days?, What is the level of debtors aged the level of debtors turnover (i.e average time to collect)?, What is the Sales Turnover in Kshs?, What aged 60 to 90 days?

SOURCE: Research Data

The table above on descriptive statistics indicates the mean values of bad debts, sales/turn over, debtors turn over, and levels of debtors aged 30 to 60, 60 to 90 and those over 90 days. The results indicate that the average level of bad debts is Ksh 308.67 million; during the period between 2002 and 2007 the average sales turnover averaged Ksh 352.83 million. The above results also show that the average time to collect the debts is 281 days. The levels of bad debts as

indicated in the results above are 407.00 million. Furthermore, the levels of debtors aged 60 to 90 averaged 420.67 million. On the other hand the number of debtors aged above 90 days has a mean value of Ksh 422.50 million.

The study shows that the R Squared change is insignificant (R square = 1.000 and R square change = 1.000). This indicates that KPLC debt collection policy pertaining to strategic customers is independent of the levels of bad debts

4.3.4 Large Power/Industrial Customers unit

Descriptive Statistics

	Mean	Std. Deviation	N
What is the level of bad debts in Kshs?	2458.9333	5641.85830	6
What is the Sales Turnover in Kshs?	2744.1833	5836.30447	6
What is the level of debtors turnover (i.e average time to collect)?	2461.2500	5727.48158	6
What is the level of debtors aged 30 to 60 days?	3261.6333	6954.83426	6
What is the level of debtors aged 60 to 90 days?	3835.9667	8274.39630	6
What is the level of debtors aged > 90 days?	4146.3500	8740.72169	6

SOURCE: Research Data

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	1.000 ^a	1.000	1.000	6.22907	1.000	2050869	2	3	.000

a. Predictors: (Constant), What is the level of debtors aged > 90 days?, What is the level of debtors turnover (i.e average time to collect)?

The table above on descriptive statistics indicates the mean values of bad debts, sales turn over, debtors turn over, and levels of debtors aged 30 to 60, 60 to 90 and those over 90 days. The results indicate that the average level of bad debts is Ksh 2458.93 million; during the period between 2002 and 2007 the average sales turnover averaged Ksh 2744.18 million. The levels of bad debts as indicated in the results above are 3261.63 million. Furthermore, the levels of debtors

aged 60 to 90 averaged 3835.97 million. On the other hand the number of debtors aged above 90 days has a mean value of Ksh 4146.35 million.

The study shows that the R Squared change is insignificant (R square = 1.000 and R square change = 1.000). This indicates that KPLC debt collection policy pertaining to large power/industrials is independent of the levels of bad debts.

4.4 Evaluation of effectiveness of credit management practices using Factor Analysis

4.4.1 Terms of payments

Correlations

			How important are credit limits to clients?	How important are payment terms to your unit?	How important is monitoring of debtors to your unit?	How important are funding of credit to clients?
Spearman's rho	How important are credit limits to clients?	Correlation Coefficient	1.000	.272	.816	.272
		Sig. (2-tailed)	.	.728	.184	.728
		N	4	4	4	4
	How important are payment terms to your unit?	Correlation Coefficient	.272	1.000	.778	1.000**
	Sig. (2-tailed)	.728	.	.222	.	
	N	4	4	4	4	
	How important is monitoring of debtors to your unit?	Correlation Coefficient	.816	.778	1.000	.778
	Sig. (2-tailed)	.184	.222	.	.222	
	N	4	4	4	4	
	How important are funding of credit to clients?	Correlation Coefficient	.272	1.000**	.778	1.000
	Sig. (2-tailed)	.728	.	.222	.	
	N	4	4	4	4	

** Correlation is significant at the 0.01 level (2-tailed).

SOURCE: Research Data

The respondents were asked to state the level of importance attached to the above-mentioned types of payments. The scale ranged from Extremely Important (EI); Very important (VI); Moderately Important (MI); Slightly important (SI) and Not important (NI). The payments term to the unit are highly positively correlated to funding of credits to clients on the other hand the other factors are positively correlated to the funding of credits at the 0.01 significant level

4.4.2 Frequencies of credit policies

What is the number of staff involved in credit management as a proportion of total employees in your unit?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	8 Out Of 13	1	25.0	25.0	25.0
	24 Out Of 26	1	25.0	25.0	50.0
	64 Out Of 81	1	25.0	25.0	75.0
	All Staff	1	25.0	25.0	100.0
	Total	4	100.0	100.0	

Does the head office allow your unit to manage credit freely?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	4	100.0	100.0	100.0

SOURCE: Research Data

The number of staff involved in credit management as a proportion of the total employees in their respective units is as follows; in domestic/ ordinary customers unit, 64 out of 81 employees are involved in credit management while 24 out of 26 in the strategic installations unit are involved. On the other hand 8 out of 13 employees are involved in credit management under the department of Government agencies. However all staff members are involved in credit management under large power/ industrial customers.

4.5 Evaluation of effectiveness of credit management practices using Accounting Based Analysis

4.5.1 Managing credit

Descriptive Statistics

	N	Mean	Std. Deviation
How important is the Age of buyer firm or potential customer in managing credit or whom to extent credit to?	4	1.0000	.00000
How important is frequency of transactions in managing credit or whom to extent credit to?	4	1.5000	1.00000
How important is product quality in managing credit or whom to extent credit to?	4	1.0000	.00000
Valid N (listwise)	4		

SOURCE: Research Data

The respondents were asked to indicate how important the above variables in managing credits with one indicating not important and five representing extremely important. The respondents stated that the above variables are not important at all as indicated by a mean of one in table 4.5.1 above.

4.5.2 Specialized management facilities

Descriptive Statistics

	N	Mean	Std. Deviation
To what extent does your unit rely on factoring in credit management facilities?	4	1.2500	.50000
To what extent does your unit rely on credit insurance in credit management facilities?	4	1.5000	.57735
To what extent does your unit rely on debt collection credit management facilities?	4	2.7500	.50000
To what extent does your unit rely on credit informationservice in credit management facilities?	4	1.2500	.50000
Valid N (listwise)	4		

SOURCE: Research Data

In relation to specialized management facilities mentioned above, the respondents were asked to indicate how important these facilities are in managing credit. The variables were assigned numbers to indicate the extent to which the above mentioned variables were assigned as: 1 not at all, 2 sometimes and 3 most of the times. The results as shown in table 4.5.2 shows that the extent to which a unit relies on debt collection credit management facilities has the highest mean of 2.75. This implies that credit management facilities are extremely important in managing credits at the KPLC. The second important variable is reliance by a unit on credit insurance in credit management facilities which has a mean of 1.5. However reliance on factoring and credit information services is least important with means of 1.25 each.

4.5.3 Source information in credit making decisions

Descriptive Statistics

	N	Mean	Std. Deviation
To what extent does your unit rely on credit information service in credit management facilities?	4	1.2500	.50000
What is the level of importance attached to bank reference in making credit decision in your unit?	4	1.7500	.95743
What is the level of importance attached to trade reference in making credit decision in your unit?	4	1.5000	.57735
What is the level of importance attached to financial statements in making credit decision in your unit?	4	2.0000	1.15470
What is the level of importance attached to personal contact in making credit decision in your unit?	4	2.7500	1.25831
What is the level of importance attached to credit agencies in making credit decision in your unit?	4	1.5000	.57735
What is the level of importance attached to past payment's record in making credit decision in your unit?	4	3.0000	1.82574
What is the level of importance attached to trade journals and business magazines in making credit decision in your unit?	4	1.0000	.00000
Valid N (listwise)	4		

SOURCE: Research Data

Given the routine nature of credit management activity and the availability of credit ratings through credit information companies, it might appear that large elements of credit management activity could be conducted more efficiently through the market than through internal

mechanisms. Those elements of the credit function that remain in-house are assumed to be more cost effective than entering into separate contracts with external agents to carry out such duties. Therefore the results for this study indicate that the level of importance attached to the past payment in making credit decisions has the highest mean of 3.000 (table above). This is closely followed by making personal in making credit decisions which has a mean of 2.75. Other variables have means of greater than 1.25.

4.5.4 Controlling risks in accounts receivables

Descriptive Statistics

	N	Mean	Std. Deviation
How successful is controlling risks in accounts receivables in your unit?	4	1.5000	.57735
How successful is due diligence on your customers upfront in your unit?	4	1.2500	.50000
How successful is collecting accounts receivables in your unit?	4	2.7500	.50000
How successful is using technology to manage credit in your unit?	4	2.7500	.50000
Valid N (listwise)	4		

SOURCE: Research Data

The researcher sought to know the importance of controlling risks in accounts receivables, due diligence on customers upfront, collecting receivables and using technology to manage credit in each of the unit. The levels of importance were ranked from the least important with 1 indicating not important, 2 average and 3 very important

4.5.5 Monitoring accounts receivables

Descriptive Statistics

	N	Mean	Std. Deviation
How important is offering customers multiple payment options in reducing payment (or non payment risks)?	4	4.7500	.50000
How important is flexible billing cycles in reducing payment (or non payment risks)?	4	4.7500	.50000
How important is incentives to pay early in reducing payment (or non payment risks)?	4	3.2500	.95743
How important is creation of single point of contact for all incoming customers in reducing payment (or non payment risks)?	4	4.5000	.57735
How important is use of technology to route customers enquiries in reducing payment (or non payment risks)?	4	4.5000	.57735
How important is prioritizing delinquent accounts for collection follow-up in reducing payment (or non payment risks)?	4	3.2500	1.25831
How important is provision of real-time access to customers information use outside collection agent in reducing payment (or non payment risks)?	4	4.7500	.50000
Valid N (listwise)	4		

SOURCE: Research Data

Monitoring receivables is very important for a firm. Efficient credit management, with its crucial impact on cash flow, can make the difference between survival and insolvency in a company, or between cost effective and wasteful administration in the public sector. Effective management of accounts receivable therefore presents important opportunities for organizations to achieve strategic advantage through improvements in customer service, cash management and reductions

in costs. In establishing an optimum credit policy, an organization must consider the important decision variables, which influence the level of receivables and the impact of such decision variables on turnover. The dismissal performance on collection of receivables clearly demonstrates that the company's credit management system has not been effective in mitigating credit risks and timely follow up of debtors. By combining early due diligence with close attention to aging receivables and using strategies like keeping backup like credit card numbers on file small business owners can get a handle on their account receivables and keep their bottom lines healthy, even when customers are dealing with their own economic challenges.

In this study, the respondents were asked to state their level of importance attached to each of the above-mentioned variables in monitoring receivables. The respondents were to rate the levels of importance as follows: Not important (1), slightly important (2), moderately important (3), very important (4); and extremely important (5). All the responses have means above 3.25 indicating that the respondents attach a lot of importance to monitoring of receivables.

4.5.6 Unit expense

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
How much (on average) does it cost your unit per month per customer to collect accounts receivable?	4	1.00	2.00	1.7500	.50000
Does your unit see a need to modify corporate credit policy (as specified by the head office) to achieve a fit with prevailing circumstances in the unit?	4	1.00	1.00	1.0000	.00000
If yes, how has this been achieved	4	1.00	4.00	2.5000	1.29099
If no, give your reasons?	0				
Valid N (listwise)	0				

SOURCE: Research Data

The respondents were asked to state how much (on average) it costs their respective units per month per customer to collect accounts receivable. In addition, the respondents were asked to state if their units see a need to modify corporate credit policy (as specified by the head office) to

achieve a fit with prevailing circumstances in the unit and to provide a reason for the same if that is the case. The response as shown in the table above indicates that respondents said that the costs per unit are minimal but variable. However, they also stated that they do not see any need to modify their corporate credit policies.

CHAPTER FIVE CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The results indicate that the responses were from domestic/ordinary customer unit, strategic customer unit, government agencies and large power/industrial customer units and they represented 25% (Appendix 1). The results also show that the respondents have been working in their credit units for 12 years 15 years 13 years and 9 years each having frequencies of 1 and 25 % . when respondents where asked how many customer accounts handled, they indicated that they handled 1147293 customers, 4650 customers, 5482 customers and 11570 customers. Each represented 25% of the respondents. In addition, the results indicates that the 4 units under study have employees with the following qualifications, primary (7), O level (43), A level (43), under graduate (50) and post graduate (7)in addition the respondents indicated that some of the employees have professional qualifications. As indicated in the results (appendix 3) those with accounting (CPA) have 5, CPS (0) and credit management (11). On the other hand only 1 employee has CPA and credit management while none has both CPA and CPS.

Furthermore, the mean values of bad debts, sales turn over, debtors turn over, and levels of debtors aged 30 to 60, 60 to 90 and those over 90 days indicates that the average level of bad debts during the period between 2002 and 2007 are below the industry standard. The study shows that the R Squared change is insignificant in all the four departments an indication that KPLC debt collection policy pertaining is independent of the levels of bad debts.

The payments term to the unit are highly positively correlated to funding of credits to clients while other factors are positively correlated to the funding of credits at the 0.01 significant levels. The results also show that the number of staff involved in credit management as a proportion of the total employees in their respective units. In domestic/ ordinary customers unit 64 out of 81 employees are involved in credit management, while 24 out of 26 are involved in the strategic customer unit. On the other hand 8 out of 13 employees are involved in credit management under the department of Government agencies. However all staff members are involved in credit management under large power/ industrial customers.

The importance of controlling risks in accounts receivables, due diligence on customers upfront, collecting receivables and using technology to manage credit in each of the unit at the KPLC were ranked from the least important with 1 indicating not important, 2 average and 3 very important. The results also show that on average, the costs incurred in their respective units per month per customer to collect accounts receivable are minimal but variable.

5.2 Limitations of the study

5.2.1 Unique operating environment

The results are limited by the fact that it focused only on credit management in the service industry in Kenya and more particularly within the energy sector. This implies therefore are, the results cannot be fully representative of the energy sector in Kenya because KPLC is a monopoly and operating in a unique environment compared those operating outside Kenya and hence no meaningful comparison can be made.

5.2.2 Small sample size

The study concentrated at the respondents at the KPLC headquarters. The results therefore gives average results for the whole company without indicating which region is mismanaging or managing debt well

5.3 Recommended areas for further study

The researcher recommends that a study be carried out for all the company's' regional offices in Kenya in order to know how the regions are managing their debts.

Another area for further study is the determining of why there seems to be a deviation from the levels of bad debts and sales turnover in the four departments in order to ascertain which customers are most credit worthy.

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Appendix 1: Letter to the Respondent

KENYA POWER & LIGHTING CO. LTD,
P.O BOX 30099
NAIROBI.

Dear Sir/ Madam,

**RE: CREDIT MANAGEMENT PRACTICES AT THE KENYA POWER AND
LIGHTING COMPANY**

I am a postgraduate student undertaking a Master of Business Administration Degree at the School of Business, University of Nairobi. I am currently carrying out a research on “The credit Management Practices at the Kenya Power”

My approach to this case study is both consultative and collaborative and ensures that it causes minimum disruption to your schedule of activities. I kindly request you to provide the required information by responding to the questions in the questionnaire. The information required is purely for academic purposes and will be treated in the strictest confidentiality. A copy of the research project will be made available to you upon request. I will appreciate your co-operation in this academic exercise.

Thanking you in advance.

Yours faithfully,

Lecturer/ Supervisor

Vikiru Stephen, MBA Student
School of Business.

MR. Ngigi
School of Business

APPENDIX 2: THE RESEARCH QUESTIONNAIRE

[Please freely answer the questions below. The information provided will be treated with the highest degree of confidence]

A. Background Information

- (i). Which Credit unit do you work in?
- (ii). How long have you been working in the current credit unit?
- (iii). How many customer accounts does your unit handle?
- (iv). How many of your staff in the unit have the following as their highest level of education?

Primary School	<input type="checkbox"/>	'O' level	<input type="checkbox"/>
'A' level	<input type="checkbox"/>	Undergraduate	<input type="checkbox"/>
Post Graduate	<input type="checkbox"/>		

- (v). How many of your staff in the unit have the following professional qualification?

Accounting (CPA)	<input type="checkbox"/>	CPS	<input type="checkbox"/>
Credit management	<input type="checkbox"/>	CPA & CREDIT MGNT	<input type="checkbox"/>
CPA & CPS	<input type="checkbox"/>	Any other (please specify)-----	

- (vi). For each of the variables given, please provide the amount (in kshs millions)

- 1. Sales Turnover (in Kshs millions).
- 2. Bad debts (in Kshs millions).
- 3. Debtors turnover (i.e average time to collect)
- 4. Debtors aged 30 to 60 days
- 5. Debtors aged 60 to 90 days
- 6. Debtors aged > 90 days

	2002	2003	2004	2005	2006	2007

B. Evaluation of Credit management practices

1. State the level of importance attached to the following credit goals and objectives in your unit? Use the scale Extremely Important (EI); Very Important (VI); Moderately Important (MI); Slightly Important (SI) and Not important (NI). (Please tick your choice)

	EI	VI	MI	SI	NI
	5	4	3	2	1
a) Credit limits to clients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Payment terms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Monitoring of debtors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Funding of credit to clients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. What is the number of staff involved in credit management as a proportion of total employees in your unit?

2. Does the head office allow your unit to manage credit freely? Yes No

3. How important are the following contextual variables in managing credit or in deciding on whom to extend credit to?

	EI	VI	MI	SI	NI
	5	4	3	2	1
Age of buyer firm or potential customer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Frequency of transactions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Product quality	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. To what extent does your unit rely on the following specialist credit management facilities?

	Most of the Times	Some times	Not at all
Factoring	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit insurance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Debt collection	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit information services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Any other

5. State the level of importance attached to the following sources of information in making credit decision in your unit.

EI	VI	MI	SI	NI
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	5	4	3	2	1
Bank reference	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Trade reference	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial Statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Personal contact	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Credit Agencies	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Past payments record	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Trade Journals and business magazines	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. How successful is your unit in:

	Very Successful	Average	Not Successful
Controlling risk in Accounts receivable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Due diligence on your customers upfront	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Collecting accounts receivable using technology to manage credit	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

7. How important are the following critical success factors in reducing payment (or non payment risks)

	EI 5	VI 4	MI 3	SI 2	NI 1
Offering customers multiple payment options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Flexible billing cycles	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Incentives to pay early	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Creation of single point of contact for All incoming customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Use technology to route customer enquires	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Prioritize delinquent accounts for collection	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Follow-up	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Provision of real time access to customers information use outside collection agent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. How useful are the following techniques in monitoring accounts receivables?

Very Useful Sometimes useless

Useful

	1	2	3	4
Debtor's days	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Variance analysis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Average collection period (Debtors)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Day's sales outsourcing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ageing schedule	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

9. How much – on average – does it cost your unit per month per customer to collect accounts receivable?

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10. Does your unit see a need to modify corporate credit policy (as specified by the head office) to achieve a fit with prevailing circumstances in the unit Yes No

If yes, how has this been achieved?

.....

If no, give your reasons?

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Appendix 3

Frequency Table

Which Credit union do you work in?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Domestic/ordinary customers	1	25.0	25.0	25.0
	Strategic Customers	1	25.0	25.0	50.0
	Government Agencies	1	25.0	25.0	75.0
	Large Power/Industrial Customers	1	25.0	25.0	100.0
	Total	4	100.0	100.0	

How long have you been working in the current credit unit?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	12 Years	1	25.0	25.0	25.0
	15 Years	1	25.0	25.0	50.0
	13 Years	1	25.0	25.0	75.0
	9 Years	1	25.0	25.0	100.0
	Total	4	100.0	100.0	

How many customer accounts does your unit handle?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1147293	1	25.0	25.0	25.0
	4650	1	25.0	25.0	50.0
	5482	1	25.0	25.0	75.0
	11570	1	25.0	25.0	100.0
	Total	4	100.0	100.0	

How many of your staff in the unit are in Primary School?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	6	1	25.0	25.0	25.0
	1	1	25.0	25.0	50.0
	0	2	50.0	50.0	100.0
	Total	4	100.0	100.0	

How many of your staff in the unit are in O level?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	27	1	25.0	25.0	25.0
	3	1	25.0	25.0	50.0
	8	1	25.0	25.0	75.0
	5	1	25.0	25.0	100.0
	Total	4	100.0	100.0	

How many of your staff in the unit are in A level?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	25	1	25.0	25.0	25.0
	4	1	25.0	25.0	50.0
	5	1	25.0	25.0	75.0
	8	1	25.0	25.0	100.0
	Total	4	100.0	100.0	

How many of your staff in the unit are in undergraduate?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	21	1	25.0	25.0	25.0
	3	1	25.0	25.0	50.0
	9	1	25.0	25.0	75.0
	17	1	25.0	25.0	100.0
	Total	4	100.0	100.0	

How many of your staff in the unit are in Post-graduate?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	25.0	25.0	25.0
	1	1	25.0	25.0	50.0
	4	1	25.0	25.0	75.0
	0	1	25.0	25.0	100.0
	Total	4	100.0	100.0	

How many of your in the unit have Accounting (CPA)?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2	1	25.0	25.0	25.0
	1	1	25.0	25.0	50.0
	2	1	25.0	25.0	75.0
	0	1	25.0	25.0	100.0
	Total	4	100.0	100.0	

How many of your in the unit have CPS?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	4	100.0	100.0	100.0

How many of your in the unit have Credit Management?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	4	1	25.0	25.0	25.0
	2	2	50.0	50.0	75.0
	5	1	25.0	25.0	100.0
	Total	4	100.0	100.0	

How many of your in the unit have CPA and Credit management?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1	1	25.0	25.0	25.0
	0	3	75.0	75.0	100.0
	Total	4	100.0	100.0	

How many of your in the unit have CPA and CPS?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0	4	100.0	100.0	100.0