FACTORS AFFECTING ACCOUNTS RECEIVABLES IN PRINTING INDUSTRIES IN KENYA

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Abstract: **Accounts receivable constitute a significant portion of current assets in industrial firms. Management therefore have to formulate strategies of effectively managing this important yet sensitive asset. This study was to investigating the factors that affect Accounts receivables in printing Industries at Nairobi Industrial area. The study further established how credit policy affect accounts receivable in printing Industries at Nairobi Industrial Area, The study was descriptive in nature and targets a population of 10 printing firms in Nairobi's industrial area. A sample of 50 respondents was selected using stratified random sampling in each of the printing industries there were five strata. The strata were that of key management staff, chief finance officer, finance staff, head of delivery and credit control staff where information was collected using semi structured questionnaire administered to the five respondents in the selected firms to collect both qualitative and quantitative information. Where necessary, personal interviews and documentary analysis ware conducted to enhance validity of information gathered using questionnaires. Data was analysed using descriptive statistics where measures of central tendency and measures of dispersion were computed to give results. Charts, tables and graphs were used to report findings. The study findings indicated that there were credit policies in place. The study concludes that the credit policy in place should be followed to the letter as it influences accounts receivable management.**

Keywords: **Accounts receivable, industrial firms, printing firms.**

1. BACKGROUND OF THE STUDY

Credit policy refer to guidelines that spell out how to decide which customers are sold on open account, the exact payment terms, the limits set on outstanding balances and how to deal with delinquent accounts, (Krueger, 2005). According to (Brigham, 1985) credit policy is defined by the credit period, credit standards, the firm's collection policy and any discount given for early payments in an organization.

According to Jian, Yang &Tsung (2011), firms may extend credit more aggressively to promote sales, resulting in a positive correlation between sales and accounts receivables. Following Petersen &Rajan (1997), there will be a positive correlation between sales and accounts receivables. Firms with more inventories are likely to extend more credit than other firms (Jian, Yang &Tsung, 2011). Both inventories and accounts receivables are current assets and thus are substitutes from the viewpoint of asset management.

2. STATEMENT OF THE PROBLEM

The major objective of any organisation is to make profits regularly. The objectives can be achieved by making sufficient sales. This is possible only when there is no disruption in the supply of required goods. The required goods may be supplied to the market, only if there is no disruption in the production of these goods by the organization. There will be no disruption in the production of goods only if there is sufficient machinery through permanent capital and if the firm has enough working capital, Otley D. (2008)

According to Larsson (2008), evaluating the credit worthiness of the customer is one among the key factor in proper credit management. A mismatch can cause significant errors in receivables management. Therefore the finance manager should always be careful and adapt the proper evaluation before extending the credit facility to their customers. Previously, the finance manager assessed the customers' character such as, financial position, liquidity position, collateral security offered and general economic conditions in which business operates. Whereas, now a days, trade reference, credit bureaus, bank reference, balance sheet information and direct information by sales men are the major indicators.

3. SPECIFIC OBJECTIVE

To find out how credit policy affect accounts receivable in printingin Kenya

4. LITERATURE REVIEW

a. Asymmetric Information Theory

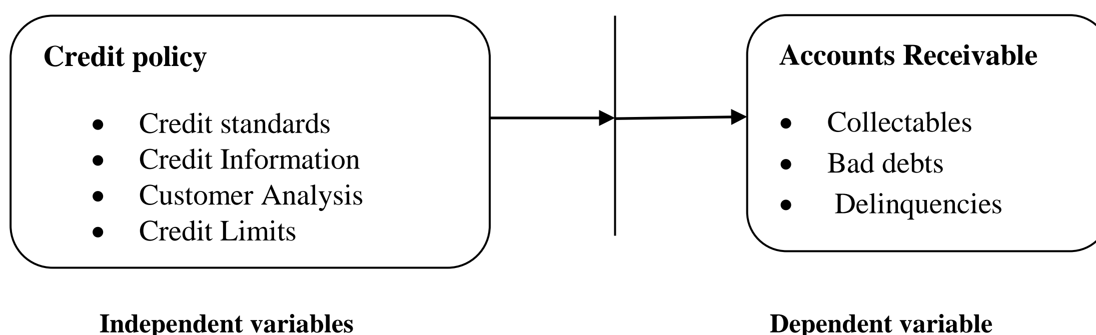
Information asymmetry refers to a situation where business owners or manager know more about the prospects for, and risks facing their business, than do lenders (PWHC, 2002) cited in Eppy.I (2005). It describes a condition in which all parties involved in an undertaking do not know relevant information. In a debt market, information asymmetry arises when a borrower who takes a loan usually has better information about the potential risks and returns associated with investment projects for which the funds are earmarked. The lender on the other hand does not have sufficient information concerning the borrower (Edwards and Turnbull, 1994). Binks et al (1992) point out that perceived information asymmetry poses two problems for the banks, moral hazard (monitoring entrepreneurial behaviour) and adverse selection (making errors in lending decisions). Banks will find it difficult to overcome these problems because it is not economical to devote resources to appraisal and monitoring where lending is for relatively small amounts. This is because data needed to screen credit applications and to monitor borrowers are not freely available to banks. Bankers face a situation of information asymmetry when assessing lending applications (Binks and Ennew, 1996, 1997). The information required to assess the competence and commitment of the entrepreneur, and the prospects of the business is either not available, uneconomic to obtain or difficult to interpret.

b. Transactions Costs Theory

First developed by Schwartz (1974), this theory conjectures that suppliers may have an advantage over traditional lenders in checking the real financial situation or the credit

worthiness of their clients. Suppliers also have a better ability to monitor and force repayment of the credit. All these superiorities may give suppliers a cost advantage when compared with financial institutions. Three sources of cost advantage were classified by Petersen and Rajan (1997) as follows: information acquisition, controlling the buyer and salvaging value from existing assets. The first source of cost advantage can be explained by the fact that sellers can get information about buyers faster and at lower cost because it is obtained in the normal course of business. That is, the frequency and the amount of the buyer's orders give suppliers an idea of the client's situation; the buyer's rejection of discounts for early payment may serve to alert the supplier of a weakening in the credit-worthiness of the buyer, and sellers usually visit customers more often than financial institutions do.

5. CONCEPTUAL FRAMEWORK



Independent variables **Dependent variable**

Credit Policy

McNaughton, (2006) defines a credit policy as a set of guidelines designed to minimize costs associated with credit while maximizing the benefits from it. He also notes that a good credit policy should be one that ensures operational consistency and adherence to uniform and sound practices. A good credit policy should involve effective initiation, analysis, credit

monitoring and evaluation. A credit policy is one of the essential tools in an organization. It is a primary tool as well as a procedure established to provide management with reasonable assurance that the credit system is functioning as it should. When credit is granted, accounts receivable are created and expected to be collected in near future. A credit policy is built on three major variables and these include credit terms, credit standards and collection procedures (Pandey 1995, Van Horne, 1994 and Kakuru ,2001).

According to Pandey IM, (1979), a firm's investment in accounts receivables depend on the volume of credit sales and collection period. Credit policy is used to refer to the combination of the three decision variables as credit standards, credit terms and collection efforts. He again states that there is only one way in which the financial manager can affect the volume of credit sales and collection period and consequently, investment in accounts receivables and this is through a credit policy.

These are the criteria, which the firm follows in selecting customers for credit extension (BPP 2000). This is a very fundamental credit policy variable that requires intensive analysis. According to Pandey, (1995), a credit standard is one of the controllable decision variables that directly influence investment in trade credit. Graham, (1990) emphasized that individual accounts of credit applicants need a great deal of scrutiny and that, for this reason, it's important that standards be set basin on the individual credit applicants. Gitman, (1982) argues that credit standards provide guidelines for determining whether to extend credit to a customer and how much credit should be extended. Kakuru, (2001) noted that it is important that credit standards be set basing on individual credit applicants by considering credit information, credit analysis, and credit limit and default rate.

Before extending credit to any of its operators, sufficient information should be collected about the customers. This is done in a bid to minimize losses. According to Otero, (1994) reliable and timely information is critical to managing the credit process. If timely and useful information is available, management is much better equipped to direct and control prudent credit processes. This involves establishing the willingness and ability of the beneficiary to meet obligations as they fall due. It should ensure loans meet credit standards and the policy guidelines for credit analysis to be effective, it should follow a typical domestic process flow beginning with data collecting and moving to action observing, Picchkel, (1998). Credit analysis is an important aspect in designing a credit policy since it culminates into the seasons regarding the amount of loan granted to the applicants.

This is the maximum amount of credit, which the firm can extend to customers at any point in time, as this limit is decided the analysis should carefully scrutinize the amount of contemplated sales and the customer's financial strength. There is need to lower the amount of credit where slow paying tendencies crop up. It refers to that period in which debts remain uncontrollable. It measures the number of days for which a credit transaction remains outstanding and thus determines the speed of payment by customers, (Pandey 1998).

This is the measure of the portion of the uncontrollable receivables that is bad debts loss ratio. This ratio indicates the default risk that is the unlikelihood that customers will fail to pay their credit obligation, Pandey, (1995). Basing on experience, the financial manager should be able to make a reasonable judgment regarding the chance of default. Pandas, (1995) identified 5cs as measurement parameters in setting credit standards and these include character, capacity, condition, capital and collateral. According to McNaughton, (1996), collateral is a tangible asset in which a bank takes securing interest. Such security should be safe and easily marketable. This may include land titles, houses, balances on savings accounts and guarantees.

Having established the terms of credit to be offered, the firm must evaluate individual credit applicants and consider the possibilities of bad debts losses or slow payment. The credit evaluation procedure involves; collecting credit information, analysing this information that is credit investigation and analysis and finally make the credit decision. This is done to minimize losses resulting from investigating in unrecoverable clients. Sources of such information include; banks, companies, associated competitors, supplies and individuals applicants. Kakuru, (2001) argues that collection of such information is not free but this cost is justifiable.

This involves analysing the credit information collected to determine the applicant's credit worthiness. Such analysis is based on previous records. This helps the analysis to draw conclusions on the applicant's financial strengths, quality of management and the nature of customers. This is an important aspect of designing a credit policy since it results into decisions about a credit limit to be granted to an individual applicant.

Bexley, (1996) noted that insurance, financial institution and leasing companies should try to establish a unique credit policy. What worked out for one company will not necessarily work well for another company thus the need to follow prime factors while designing a credit policy. Internal factors that are critical include; the economy, customers mix, and stability of trade and growth element in the area.

There are various challenges involved in managing credit. In order to succeed in managing these challenges; credit societies/firms must recognize the responsibility to the members. It is important for them to aim at sustainability. McLord, (1998) observes that challenges can be managed by charging interest rates that cover costs; thus growing to serve high volumes of members and constantly relieving operating and financial costs. This requires a business attitude regardless of whether the organization is non-government/government/private company.

6. RESEARCH GAPS

Several studies have already been conducted on the relationship between receivables management and financial performance of organizations. Most of the studies outside Kenya have concluded that there exists a negative relationship between accounts receivables management and financial performance of firms. Narware (2004) in his empirical study on Indian National Fertilizer Limited, for 1990-91 to 1999-2000 signify that receivables management and profitability of the firm disclosed both negative and positive association. He also found evidence that increase in the profitability of a firm was less than the proportion to decrease in accounts receivables.

Similar studies done locally in Kenya have revealed relatively similar results as concluded by Biwott (2011) Caffaso (2011), Kamula (2011), Kweri (2011). As earlier noted, the issue on accounts receivables have been widely studied. However, largely missing from literature is the focus on printing sector and specifically on printing firms in Nairobi Industrial Area that is in significantly different industry setting compared to industries where studies have already been done locally. They are equally in significantly different context to other printing firms where studies have already been done elsewhere in the world. Indeed, Biwott (2011), Caffasso (2011) and Kweri (2011) have recommended similar studies to be done in different industries and sectors. This study therefore seeks to fill this research gap by seeking to find out how evaluation is done on the accounts receivables management in printingfirms in Nairobi Industrial area.

7. RESEARCH METHODOLOGY

Research design

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 2004). This study adopted a descriptive design because the study seeks to answer the why, how and when of the problem under study.

There are a number of advantages of descriptive research, however the two main benefits of this research method was being able to use various forms of data as well as incorporating human experience. It gives researchers the ability to look at whatever they are studying in various aspects and can provide a bigger overview as opposed to other forms of research. According to Mugenda and Mugenda (2005), a descriptive research design is flexible and it provides an opportunity to examine all aspects of a problem and it will capture all the characteristics of the target population.

The major purpose of adopting descriptive design method was that it measures the accuracy of the variables. Descriptive research was restricted to facts findings and may result in formulation of important principles of knowledge and solutions to significant problems. It’s more than collection of data and it involves measures, classification, analysis and interpretation (Kothari 2008). Descriptive research involved field survey where the researcher goes to the population of interest to ask certain issues about the problem under the study. According to Owens (2002), survey research design has the advantage of uniqueness since information gathered is not available from other sources, having unbiased representation of population of interest and standardization of measurement as same information is collected from every respondent.

8. DATA ANALYSIS, PRESENTATION AND INTERPRETATION

The data analysis was per the specific objective which have been investigated, interpreted and inferences drawn on them.

Demographic Information

Response Rate

The number of questionnaires which were administered to all the respondents was 50. A total of 38 questionnaires were properly filled and returned from the printing company employees.

This represented successful response rate of 76%. According to Mugenda andMugenda (2003), a response rate of 50% or more is adequate.

Table: Response Rate

Response	Total	Percent
Returned	38	76%
Unreturned	12	24%
Total	50	100%

Gender of the Respondents

The respondents were expected indicate their gender. The results shows that majority

(58%) of the respondents ware male and (42%)were female. The findings imply that in the printing company majority are male. According to Ellis et al. (2007), in spite of women being major actors in Kenya's economy, mostly in agriculture sector men play a major role in the formal sector.

Table: Gender of the Respondents

Gender	Frequency	Percent
Male	22	58%
Female	16	42
Total	**38**	**100**

Age Bracket of the Respondents

The respondents were supposed to indicate their age brackets. Results revealed that most (58%) of the respondents were aged between 31 to 45 years and 42% were aged between 21 to 30 years. The finding shows that most of the respondents were at their career peak. The findings also imply that a significant number of the respondents were youths hence young work force which can cope with long working hours in the printing industry.

Table: Age Bracket Table

Age bracket	No of employees	Percentage
21-30	16	42%
31-45	22	58%
45 -65	0	0%
Total	**38**	**100%**

Credit policy on Accounts Receivable

Credit policy is all about standization of the policy that the organization is using as a guide when granting the customer credit. It entails collecting relevant information from the customer in relation to his business. It would also be importance to start a new customer on cash basis before granting credit. This enables the customer to prove his reliability. As per

Table below,84% of the respondents are in agreement that if the credit policy is adhered to and written down in a manual then the company would be successfulin accounts receivable management.According to the study 69% of the respondent were in agreement that credit policy affects positively accounts receivables.

The research also found out that customers who have traded with the organization for more than one year were 78% likely to honor their payments unlike new customers. Eighty percent of respondents, also agreed to stop supply until a company honor payment due. This is meant to reduce the levels of bad debts which is a cost to an organization. I am of the opinion that when dealing with difficult customers' accounts are put on hold and future sales are stopped until the account is settled (Kungu, et al., 2014).According to the Table below, an aggre grate mean of 78% of the respondents agree on all aspects of Credit Policy effects on accounts receivable. This indicates that credit policy is an important tool in the accounts receivable management in printing industry.

Table: Credit policy on Accounts Receivable

Statement	Agree	Disagree	Neutral
Is your credit policy written and shared to customer?	84%	11 %5%	
Likely hood of customer who have traded for over one year to honor their debt.	78%	6 %	14%
Do credit policy affect accounts receivable?	69%	20 %	11%
Do you stop supply until customer makes payment?	80%	16%	4%
Mean	78%	13%	9%

9. SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Summary of the Findings

The general objective of the study was to establish the determinants of accounts receivables management in the printing industry in Nairobi industrial area. One of the key findings was that employees at printing firms were concerned about accounts receivables management. This was demonstrated by the extent of agreement with the statements in the questionnaire in support of accounts receivables management in the printing firms in Nairobi Industrial area.

Credit Policy

The first objective of the study was to establish how credit policy affects accounts receivables management in the printing industry in Nairobi Industrial area. Results showed that printing firms have credit policy for receivable accounts. Additionally, the results show that they follow the credit policy when granting credit to their customers. This are written down rules that will guide an organization on how to handle credit management.

10. CONCLUSION

Based on the objective and the findings of the study the following conclusion can be reached.

Credit Policy and Accounts Receivables Management

Credit policy was found to determine accounts receivables management in Nairobi Industrial area. The policy should be followed and any changes made should be authorized by senior management because it influences accounts receivables management and hence improves the firms performance at large.

11. RECOMMENDATION

Based on the result, finding and conclusio the following recommendations have been made.

It was found that credit policies influenced accounts receivables management positively. On that basisit is recommended to the management of the printing firms that they put in place credit policies and procedures to be followed during trade credit. The printing firms management is also urged to ensure that there are standardized and written manuals with credit policies regarding trade credit to be complied to by staff.

12. AREA FOR FURTHER STUDY

A similar study can be carried out with a further scope to include more printing firms in other regions in Kenya.

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