FACTORS AFFECTING ACCOUNTS RECEIVABLE IN PARCEL COMPANIES IN NAIROBI COUNTY

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A research project submitted to the Department of Business and Economics studies in the School of Human Resource Development in partial fulfillment of the requirement for the award of the degree of Executive Master of Business Administration of Jomo Kenyatta University of Agriculture and Technology

MARCH, 2012

DECLARATION

I declare that this research project report is my original work and has not been submitted to any other institution for award of a degree or any other academic credit.

Signed…………………………………………………………Date 17/03/12 ………………………………………...

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HD334-033-0239/2011

This Research project report was done under our supervision and has been submitted to Jomo Kenyatta University of Agriculture and Technology for examination with our approval as the University's appointed supervisors.

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Mr. John M.G.Kabiru

DEDICATION

This research project report is dedicated to my loving late father Mr.Onyango Onyango (Snr) for his continued desire to see me through this program. May his soul rest in peace. I also dedicate this project to my wife Lucy W. Onyango for her love and support during this period of the coursework and research project. Her support and understanding enabled me to spend as much as possible on this project. I greatly appreciate and thank her very much.

ACKNOWLEDGEMENT

Glory is to God, who has bestowed man with wisdom and intellect. I wish to acknowledge with gratitude, the Jomo Kenyatta University of Agriculture and Technology and the Management University of Africa for providing the opportunity for me to earn the Degree of Executive Masters of Business Administration from the University. I thank most sincerely my dynamic academic supervisors, namely, Mr. John M.G.Kabiru and Dr. Charles Ombuki for their guidance, supervision and assistance during the course of this research. Their intellectual disposition and wide experience was brought to bear on, and greatly influenced, the output of this research project. I thank my dear wife, Lucy W. Onyango, and my child for their support and encouragement and bearing with me during the course of the programme.Great appreciation to the parcel services company fraternity of Nairobi County for the disclosure of the required information. Above all, I thank God for His Bounties and Mercies.

ABSTRACT

The study evaluated factors affecting accounts receivable of parcel companies in Nairobi County. Accounts receivable as an important component of corporate liquid assets is critical to the operation of parcel delivery companies. Most parcel companies in Nairobi County observed hardly manage their short-term financial obligations due to their poor management of accounts receivable. The study sought to determine the factors affecting accounts receivable in parcel companies in Nairobi County and specifically to determine the effects of credit management policies on accounts receivable in parcel companies in Nairobi County, to find out the extent to which credit management skills affect accounts receivable in parcel companies in Nairobi County, to find out the extent to which competition affects accounts receivable in parcel companies in Nairobi County and to determine the effects of credit management information system on accounts receivable of parcel companies in Nairobi County. The study used descriptive research incorporating survey design. The target population consisted of senior officials of companies offering parcel services in Nairobi County. A population of eighty seven (87) licensed operators of parcel companies was surveyed. Data was collected by use of questionnaires delivered by courier service and electronic mails to various respondents. The questionnaire included a likert scale, open ended questions as well as quantitative data which was analyzed by use of MS Excel and summarized using descriptive statistics in the form of tables, frequencies and percentages. Textual data was analyzed qualitatively. The major findings developed from this study were that parcel companies in Nairobi County are not efficient in credit management. The study also found out that parcel companies are not efficient on the use of credit management policies. Further, the study established that parcel companies in Nairobi County inefficiently undertake skills analysis before granting any credit management job. Thirdly, the study established that competition is a critical factor affecting whether the companies offer services in cash or credit resulting into accounts receivable.Finally,it was established that most companies still use general accounting applications that do not have adequate capabilities to give proper credit information. The study recommended that there is need for parcel companies in Nairobi County to undertake continuous benchmarking of their accounts receivable management strategies and policies with other players in the industry. Credit management skills are important in lifting the abilities of credit officers to leverage credit into strategic position and greater profitability. The current competitive environment, parcel companies will triumph only if they are able to offer credit to clients with right credit strategies. Parcel companies need to put effective credit management information system that supports accounts receivable management and provides accurate information on clients to be used in analysis and offering of credit to customers.

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ACRONYMS

SNR	-Senior
CCK	-Communication Commission of Kenya
FECMA	-Federation of European Credit Management Associations

DEFINITION OF TERMS

Risk- This is the possibility of suffering harm or loss.

Postal articles- Means anything transmissible by post, including but not limited to letters or parcels.

Parcel - Means a postal article which is posted at the office of a licensee as a parcel or is received at another office. Provided that the said parcel is not smaller than the minimum size or heavier than the maximum weight prescribed.

Parcel service- According to the Communications Commission of Kenya Act, 1998 parcel delivery services refer to any specialized service for the collection, dispatch, conveyance, handling and delivery of postal articles other than letters.

A Post - Does not necessarily refer to the Postal Corporation of Kenya (PCK) but means any system for the handling, collection, dispatch, acceptance, conveyance and delivery of postal articles operated by any licensee.

Accounts Receivable- Money which is owed to a company by a customer for products and services provided on credit. This is often treated as a current asset on a balance sheet. A specific sale is generally only treated as an account receivable after the customer is sent an invoice.

CHAPTER ONE

INTRODUCTION

1.1 Background Information

Accounts receivable is an essential element of business life for most companies in the world, so important that it even has macro-economic repercussions. One may imagine that accounts receivable is even more important in countries where financial markets mal-function, contract enforcement is insecure, and information is scarce, unreliable, and asymmetric. Many African economies may be described in such a way. Ultimately, conditions like those impair parcel delivery firms' abilities to efficiently function, invest, and grow. In turn, the parcels sector's growth and ability to drive overall economic development is hindered. Despite the potential importance of accounts receivable, limited attention has been paid to its performance and role, especially in developing countries. The study was to address this lack of attention by focusing on the factors affecting accounts receivable quality in Kenyan parcels delivery industry.

A study conducted by the Communication Commission of Kenya (CCK) in 2007 revealed among other things that there was increase in the number of licensed parcel delivery companies in the country from 30 in 2000 to 140 in 2007. The growth in the number of operators owing to the liberalized parcel delivery sector has created stiff competition in the industry evidenced by the declining business volume of the public postal licensee in inland parcels market. The fact that there is rapid and consistent competition in the parcels service industry and there are several other justifications for selling goods and services on credit has made the concern on performance of accounts receivable critical. Also, the need for promotion motive and simplification of transactions.

The carrying of parcels has grown to be a very significant part of the transportation system, as large as or larger by many measures than most of the major traditional elements of the freight transportation system; airlines, pipelines and railroads. Yet very little was known about the parcel industry. We believed there were fundamentally two reasons why parcel service had become so important in recent years. One consists of changes in the way goods and services are produced and distributed in our economy, globalization, customized mass production, lean inventory management, rapid customer response and growth in e-commerce, among others. The other is parcel service itself, which is at the vanguard of transportation service modernization with such features as differentiated time definite service options, intermodal service, in-transit visibility, and data integration with the management systems of customers. Thus parcel service is a major element of the transportation infrastructure of a nation. It is essential for modern commerce. And current trends suggest that parcel service will assume an even more significant role in the future.

The technology of providing parcel service is somewhat unique in the transportation industry, and also explains how the parcel carriers relate to the traditional modal carriers. In order to provide the movement of a small package at a reasonable cost, parcels must be aggregated into larger units for movement, and this aggregation, and subsequent disaggregation, largely defines how they operate. Starting with a simple parcel service that uses only road transport, the operation proceeds as parcels are normally picked up by a driver with a small local area vehicle at the shipment's origin, and hundreds are often picked up before the vehicle goes to a hub or terminal. This is the origin hub for this shipment—the first hub reached on its journey. There the shipments are sorted, by outbound line haul truck. After loading, the line haul truck departs for the next hub or terminal on the parcel's route. At that location, the line haul truck is unloaded, and the parcels are again sorted. If this is the destination hub of all the parcels on that truck, they would be sorted into local area vehicles for delivery, and delivered the next day. In many cases, however, there are insufficient parcels to fill a line haul truck for each possible destination hub, and thus the truck will carry parcels for many destinations beyond that hub. Thus the inbound line haul truck's parcels will be sorted for both other destinations and for the local area, the latter parcels being sorted a second time for the local delivery vehicles. The shipments going beyond will be placed on another line haul vehicle, and continue their journey, with more sorting and line haul transfers at intermediate hubs until they reach their destination hub.

The growth of parcel service relative to more traditional forms of transportation provides a perfect illustration. It is generally more expensive per ton-mile than other forms of transportation, but is increasingly used because of the non-transport benefits to the customer-producers and buyers of goods. Finally, this implies a broader view of the system that is being optimized by transportation companies, public sector infrastructure agencies, and government.

For transportation service providers, this means that they must be flexible and nimble, and respond to new needs stemming from changes in the production and distribution system.

Many organizations today are faced with the problem of having huge accumulated balances owing to accounts receivables which are sometimes written off and thus interfering with the organizations operations. Accounts receivable management tries to minimize the amounts of money tied up in form of accounts receivables and thus takes the organization back to its original set goals. To increase profit in parcel delivery organizations, most companies usually allow the services to be done on credit. They are allowed with the high expectation that customer would pay incurred amount in due time. But there are also times when customers would not pay on time or not be able to pay at all, the expenses then would fall into the uncollectible accounts or bad debts and are a loss or an expense of selling on credit (Smith et al, 1989).So to avoid large amounts of bad debts, most organizations would set up a credit department. As written in Needles' Financial Accounting, 'This department's responsibilities include the examination of each person or company that applies for credit and the approval or disapproval of the sale to that customer on credit.' The job of the credit department should also include asking for information about customer's financial resources and debts check personal references and established credit bureaus which may have information about the customer. After the checking process, the department would then decide whether to sell on credit to that customer or not. Davis Hartley Le Moine asserts that there must be a balance between the acceptable level of credit losses and the potential profit on total credit sales must be reached, otherwise they would be charged against the sales revenues they helped to create, which would make the company unprofitable.

Just like other countries, it is necessary in Kenya too for enterprises to develop the credit sales and receivables. However the poor policies for receivable accounts have resulted in the risks of a large amount of overdue accounts receivable. It is well known that the receivable scale and its holding period are very important for the enterprises continuous development. But many parcel companies in Kenya have not realized the importance of receivables management and are short of systematic solvent, some of them have tense cash flow and even got into financial payment crisis because of poor receivables management. How to supervise and control accounts receivable in different process is the emphasis of the research. There are some problems in accounts receivable management in a company because of environments outside and factors inside, such as the big overdue accounts receivable, long overdue accounts receivable, high bad debt ratio and overlooking credit management. Now a company faces bad cash turnover due to big accounts receivable, which gives bad influence on cash flow and financial status, even normal business is constrained.

According to the Federation of European Credit Management Associations (FECMA) research of November, 2006 on background to European credit management and their respective credit environment, the Directorate-General for Enterprise of the European Commission on late payment revealed that in Europe, 25% of insolvencies are due to late payment resulting in a loss of 450,000 jobs each year. The payment delays in credit transactions across the EU are quantified at EUR 90 billion a year and they account for EUR 10.8 billion in terms of lost interest. Additionally, outstanding debts worth of EUR 23.6 billion are lost every year through insolvencies caused by late payment. The research emphasized to protect creditors supplying goods and services in receiving adequate compensation and shows the challenges a company and economy may face if account receivable performance is not monitored. Credit risk in view of this study is the risk that a company will not get paid on time or paid at all, for the goods and services. This is the most obvious concern and one that exists, at least theoretically, in every transaction. The vast majority of trade transactions are conducted on 'open account' terms, relying on the relationship with the purchaser, supported by a purchase order and invoice with mutually agreed payment terms, as the basis for trust. Despite the perceived and reported defaults in parcel delivery businesses and as with any business proposition, there are inherent risks in the venture. There are various risks that face parcel service companies and can be broadly categorized as institutional risks, operation risks, financial management risks, credit risks and external risks. Credit risk management is extremely crucial to the success of any parcel delivery company.Inorder not to be eliminated in the competition to maintain their competitiveness', parcel delivery companies must strengthen the credit management. Accounts receivable are the biggest credit risk item of companies. Credit management is a cornerstone of prudent liquidity management practice. Credit risk is a necessary consequence of a vibrant economy. Everyone involved in complex production and provision must wait for payment until the goods or services are delivered to the final consumer or even later. But payment delays and credit risk cannot be eliminated entirely without stifling the economy.

The "normal course of business" credit analysis is essentially local. A parcel delivery services company makes credit decisions based on reputation and direct observation of local customers. There is no sharp distinction between credit judgments and general business judgments and there is no outright demand for credit ratings, because service providers know more about their customers than outside agencies. Moreover, credit analysis depends on detailed knowledge of the specific business and local conditions. Companies do not have generic financial statements or other data suitable for analysis by faraway professional credit raters. Larger scale institutions, like banks, gather their own private credit information or rely on correspondents. Although this has began to change with parcel delivery companies in Kenya pushing to join the recently set up credit bureaus to get information about their customers, this has not borne some significant results.

1.2 Statement of the Problem

Many organizations today are faced with the problem of having huge accumulated balances owing to accounts receivables which are sometimes written off and thus interfering with the organizations operations, infact to the extent of causing re-organizations. Parcel companies face a number of challenges, for example the collateral requirement associated with the parcel service does not exist completely. Generally, giving credit without collateral arguably makes the trade more risky. This is the trend in practice in parcel companies and it leads to the question, what factors are affecting accounts receivable of parcel companies in Nairobi County? It has been observed that failure of parcel companies is associated with working capital component and specifically accounts receivable. Poor management of accounts receivable affects companies' ability to meet their short term obligations hence threatening their survival.

This study established the critical factors affecting accounts receivable in parcel companies. The research thus assessed factors affecting accounts receivable in parcel companies in Nairobi County.

1.3 Research Objectives

1.3.1 General Objective

To determine the factors affecting accounts receivable in parcel companies in Nairobi County.

1.3.2 Specific Objectives

1. To determine the effects of credit management policies on accounts receivable in parcel companies in Nairobi County.
2. To find out the extent to which credit management skills affect accounts receivable in parcel companies in Nairobi County.
3. To find out the extent to which competition affects accounts receivable in parcel companies in Nairobi County.
4. To determine the effects of credit management information systems on accounts receivable of parcel companies in Nairobi County.

1.4 Research Questions

1. To what extent do credit management policies affect accounts receivable of parcel companies in Nairobi County?
2. How do credit management skills affect accounts receivable of parcel companies in Nairobi County?
3. To what extent do competition among parcel companies affect accounts receivable of parcel companies in Nairobi County?
4. How do credit management information systems affect accounts receivable of parcel companies in Nairobi County?

1.5 Justification of the Study

Parcel service companies act as distribution intermediaries between manufacturers, retailers, jobbers and the end consumers. The service is mainly in the form of delivery of parcels from the consignors to consignees whose payment terms are either cash on delivery basis or credit term period like 30days net depending on the credit policy of the parcel company. It is imperative upon the companies to ensure that such payments resulting to outstanding accounts be paid as per agreed covenants. This study found out the factors affecting accounts receivable in parcel delivery companies in Nairobi County. The study established the global best practice in management of accounts receivable and determined the extent of the application of the best practices by local parcel companies. The findings of study will be of benefit to management personnel of the parcel companies in Nairobi County. The study consolidated their knowledge of best practice in credit and accounts receivable management.

The study also showed the extent with which the parcel companies are or are not applying the best practice in accounts receivable management.

The findings of this study will also benefit students of finance and credit management. The study will add to existing pool of knowledge as well as provide a basis for further research. In addition, the findings of this research will equip the policy makers with the strengths and weaknesses of various strategies and practices in the credit management. This will make it easier for both Government and Industries to combine the best management practices with appropriate mix of policies and incentives to achieve the objectives set by the parcel's sub-sector.

1.6 Scope of the Study

This research established the critical factors affecting accounts receivables in parcel companies. The research was limited to establishing the critical factors affecting parcel companies in Nairobi County. The study targeted a population of eighty seven (87) parcel companies licensed operators by the Communication Commission of Kenya as at November, 2011 in Nairobi County.

1.7 Limitation of the Study

There was reluctance of some respondents to disclose the information due to confidentiality. This was tackled by explaining to the respondents the objective of this study. A cover letter introducing the questionnaire was attached to every respondent to explain the academic goal of this project. There was limitation of scope as this study was limited to parcel companies in Nairobi County licensed by the Communication Commission of Kenya as at end of the year 2011.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction to Literature Review

The approach used in this chapter is first to describe the basic principles of parcel delivery services. The literature review also explains the independent variables of the study. All the available literature concerning the problem under study was examined. Specifically, literature was reviewed on overall credit management but with special focus on accounts receivable. This chapter is organized into three parts. The first is the overview, followed by past studies done in the area and gaps to be filled by study.

2.2 The Evolution of Parcel Delivery Services

This section traces how parcel delivery services in its current form have become attractive to big companies which had previously neglected it.

In Kenya parcel delivery services have been in place in some form for centuries, but it was much more time-consuming and inefficient to deliver parcels across large distances when there was little technology available. Without automobiles and airplanes, it took much longer for parcel carriers to reach their destination. They had to rely on donkeys or simply their own two legs to get the job done. Invention of fuel-powered vehicles opened up a whole new world for parcel services. Finally, it was possible to move over great distances with minimal effort. It was now possible for most people to afford to send parcels between towns and even countries. The public mail system was developed, which encouraged the process. For a long time, this form of mail system was the main one. Everyone trusted it to be the safest and cheapest option for sending their parcels.

2.3 Credit Management

According to Malcolm Tatum (2003), credit management is a term used to identify accounting functions usually conducted under the umbrella of accounts receivables. Essentially, this collection of processes involves qualifying the extension of credit to a customer, monitors the reception and logging of payments on outstanding invoices, the initiation of collection procedures, and the resolution of disputes or queries regarding charges on a customer invoice. When functioning efficiently, credit management serves as an excellent way for the business to remain financially stable. The process of credit management begins with accurately assessing the credit-worthiness of the customer base. This is particularly important if the company chooses to extend some type of credit line or revolving credit to certain customers. Proper credit management calls for setting specific criteria that a customer must meet before receiving this type of credit arrangement. As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer. Several factors are used as part of the credit management process to evaluate and qualify a customer for the receipt of some form of commercial credit. This includes gathering data on the potential customer's current financial condition, including the current credit score. The current ratio between income and outstanding financial obligations will also be taken into consideration. Competent credit management seeks to not only protect the vendor from possible losses, but also protect the customer from creating more debt obligations that cannot be settled in a timely manner.

Small Business Corporation of Western Austria defines credit management as the process for controlling and collecting payments from your customers. A good credit management system will help a company reduce the amount of capital tied up with debtors (people who owe you money) and minimize your exposure to bad debts. Good credit management is vital to a company's cash flow. It is possible to be profitable on paper but lack the cash to continue operating your business.

Credit management is an important function in every organization. It is the balancing act between maximizing business revenue against minimizing credit loss. All big and lucrative business deals involve some levels of credit risks. On the other hand companies cannot advance or function without credit. Therefore in order to ensure a company enjoy the benefits of big and lucrative business deals and function properly, it has to management its credit well and efficiently. Investing in receivables involves credit risk. It is impossible to eliminate credit loss totally. However it is possible keep credit loss to minimal through credit management. Practicing and executing efficient credit management will ensure the company makes good decision investing in good receivables with minimal credit loss. Calculating the cost of investment in receivables involves taking the below cost items into consideration. Cost of credit loss due to bad debts, direct expenses involved in collection of receivables which includes salaries, communication, printing, computing and so on and cost of funding the receivables or debts which includes interest and opportunity cost. At the other end a company have to consider the loss profit earning opportunity if it doesn't intend to invest in the receivables which will kill off the business deals. The most ideal point of credit management is where the marginal cost of credit equals the marginal profit on the increase sales. The optimal credit management standard is that the company invests in quality receivables and maximizing profit.

2.4 Credit Management Policy Compliance

Compliance is the process that records and monitors the policies, procedures needed to enable adhere to own policies and those of regulators. Compliance is also a form of risk management that is created to ensure that the entity adheres to policies created.Non-compliance of credit policies exposes an organization to defaults and violation of contracts .This can lead to diminished reputation, reduced business value, reduced expansion potential and inability to meet current obligations as and when they fall due. The ultimate accountability for compliance should rest with the board. Management should fully understand all aspects of non-compliance and exhibit a clear commitment to compliance. The commitment should be communicated throughout the company. The board and senior management should ensure that there is an effective, integrated compliance management framework. Parcel companies should have policies, processes and procedures to control or mitigate non-compliance risks. Authority and accountability for compliance with credit management policies should be clearly defined and enforced (Central bank of Kenya, 2004).

A system should exist to ensure that deficiencies identified are promptly managed and meaningful corrective actions implemented. Training programs should be effective and the necessary resources provided to ensure compliance. Compliance management process and information systems should sound and the company should have strong control culture. Compliance considerations should be incorporated into service delivery system and modification of systems and processes, including changes made by outside service providers.

2.5 Variables

2.5.1 Credit Management Policies

According to the Credit research foundation report, 1996 a credit policy is a general course of action developed for recurring situations, designed to achieve established credit objectives. There are at least four reasons to have a written credit policy, and they each add to the productivity of an entire organization. First, the responsibility of managing receivables is a serious undertaking. It involves limiting bad debts and improving cash flow. With outstanding receivables often being a firm's major asset, it is obvious that a reasoned and structured approach to credit management is necessary. Second, a credit policy assures a degree of consistency among departments. By writing down what is expected, the arms of the company (whether marketing, or finance) will realize that they have a common set of goals. Conversely, a written policy can delineate each department's functions so that duplication of effort and needless friction are avoided. Third, it provides for a consistent approach among customers. Decision making becomes a logical function based on pre-determined parameters. This simplifies the decision process and yields a sense of fairness that will only improve customer relations. Finally, it can provide some recognition of the credit department as a separate entity, one which is worthy of providing input into the overall strategy of the firm. This allows the department to be an important resource to upper management. Credit policies differ in both length and content. Concerning length, some are as short as several paragraphs, while others can go on for many pages. As one might suspect, there are advantages and drawbacks to each approach. In a positive sense, a detailed policy leaves little room for doubt. Procedures are spelled out, and employees need only refer to their manual to know how to perform. There will be no gray areas between departments, and consistency will reign. On the other hand, a long and excessively detailed credit policy can limit employee creativity or empowerment. New ideas on how to work in a changing world will be superseded by a set of omniscient regulations. Also, a huge volume of rules can be overwhelming.

According to small business encyclopedia, though most consumers expect to pay cash or use a credit card when making a purchase, commercial customers typically want to be billed for any products and services they buy. A company needs to decide how much credit they are willing to extend to them and under what circumstances. There's no one-size-fits-all credit policy, a company's policy will be based on its particular business and cash-flow circumstances, industry standards, current economic conditions, and the degree of risk involved. As a company creates its policy, consider the link between credit and sales. Easy credit terms can be an excellent way to boost sales, but they can also increase losses if customers default. A good credit policy should address the following points: Credit limits. Credit terms. If you agree to bill a customer, you need to decide when the payment will be due. Your terms may also include early-payment discounts and late-payment penalties. Deposits. You may require customers to pay a portion of the amount due in advance. Customer information. This section should outline what you want to know about a customer before making a credit decision. Typical points include years in business, length of time at present location, financial data, credit rating with other vendors and credit reporting agencies, information about the individual principals of the company, and how much they expect to purchase from you. Documentation. This includes credit applications, sales agreements, contracts, purchase orders, bills of lading, delivery receipts, invoices, correspondence, and so on. An often-overlooked element in setting a credit policy is the design of invoices and statements. The invoice is the document that describes what the customer is being billed for; the statement is the follow-up document that indicates the status of the account. One collection and creditor rights expert says that invoices and statements that are clear, easy to read, and allow the customer to quickly identify what is being billed are likely to be paid
faster.

2.5.2 Credit Management Skills

Parcel companies just like entrepreneurs require continuous training in tandem with expanding credit amount (Hynes,2002).Although the skills of managing credit in parcel companies may not be considered critical by firms, it's very critical for fostering more rapid growth of parcel companies. Parcel companies offer gradually increasing credit amounts that points to the need of incremental training and credit management skills as the business grow. Whereas small firms may give credit with little or no credit training or skills the growth of the firm may remain untapped for lack of basic credit management skills due large amounts of accounts receivable. Larger credit amounts require parcel companies to explore more credit information about the clients and generally about credit management. This can either be by inventing more creative credit measures that would improve the liquidity position of the firm. As this happens credit management becomes more complex requiring fundamental credit management skills to spur the growth of companies into the next levels of transport companies. Continued training on credit management is important in lifting the abilities of credit officers to leverage credit into strategic position and greater profitability.

However, few firms in Kenya appreciate any sort of such training especially in parcel delivery sector. Only 7 percent of micro and small enterprises in the 1999 Baseline survey had received any form financial and non-financial training in the previous four years (Stevenson, 2005).As the main aim of credit programme by a company would be to achieve quality accounts receivable at any period of time, training programs are crucial for the achievement of such intended goal. Although many organizations seek to ensure success by complying investment in human capital, the duration, focus and instructional method of training but these companies may vary a great deal. Some training programs are done either as a pre-condition for credit or as a requirement during debt collection and others make opportunity available for clients.

According to Butchery (1997), certain challenges of firms' growth such as liquidity conditions cannot be picked solely on capital infections. Incomes may bump up but without attention to credit policies and procedures it may stagnate the growth. Smith and Metzer (1998) found that literacy levels of enterprises enhance earnings brought by proper business planning, controlling and monitoring by proper planning.

2.5.3 Competition

Adams Smith in The wealth of Nations (1776) describes competition as allocating productive resources to their most highly-valued uses and encouraging efficiency. Microeconomic theory distinguished between perfect competition and imperfect competition, concluding that no system of resource allocation is more efficient than perfect competition. Competition, according to the theory, causes commercial firms to develop new products, services and technologies, which would give consumers greater selection and better products. The greater selection typically causes lower prices for the products, compared to what the price would be if there was no competition (monopoly) or little competition (oligopoly).

However, competition may also lead to wasted (duplicated) effort and to increased costs (and prices) in some circumstances. For example, the intense competition for the small number of top jobs in music and movie acting leads many aspiring musicians and actors to make substantial investments in training which are not recouped, because only a fraction become successful.

Three levels of economic competition have been classified. First, the most narrow form is direct competition (also called category competition or brand competition), where products which perform the same function compete against each other. For example, one brand of pick-up trucks competes with several other brands of pick-up trucks. Sometimes, two companies are rivals and one adds new products to their line, which leads to the other company distributing the same new things, and in this manner they compete.Second,the next form is substitute or indirect competition, where products which are close substitutes for one another compete. For example, butter competes with margarine, mayonnaise and other various sauces and spreads. Finally, the broadest form of competition is typically called budget competition. Included in this category is anything on which the consumer might want to spend their available money. For example, a family which has $20,000 available may choose to spend it on many different items, which can all be seen as competing with each other for the family's expenditure. This form of competition is also sometimes described as a competition of "share of wallet". In addition, companies also compete for financing on the capital markets (equity or debt) in order to generate the necessary cash for their operations. An investor typically will consider alternative investment opportunities given his risk profile and not only look at companies just competing on product (direct competitors). Enlarging the investment universe to include indirect competitors leads to a broader peer universe of comparable, indirectly competing companies.

Competition does not necessarily have to be between companies. For example, business writers sometimes refer to internal competition. This is competition within companies. The idea was first introduced by Alfred Sloan at General Motors in the 1920s. Sloan deliberately created areas of overlap between divisions of the company so that each division would be competing with the other divisions. For example, the Chevy division would compete with the Pontiac division for some market segments. Also, in 1931, Procter & Gamble initiated a deliberate system of internal brand-versus-brand rivalry. The company was organized around different brands, with each brand allocated resources, including a dedicated group of employees willing to champion the brand. Each brand manager was given responsibility for the success or failure of the brand, and compensated accordingly. This is known as intra-brand competition.

Even though competition has the power to force parcel delivery companies to rethink and reform the challenges of fierce competition, it can undermine operating standards and erode profitability of such companies with small margins. It also results in limited human resources (Finmark, 2007).

Competition among the parcel sector has become fierce and new entrants to the sector have merged. Where heavily limited services use to be the norms in 1980s and 190s several parcel companies have emerged with an array of services.

The Kenya parcel delivery landscape has dramatically changed and the implications are increased competition leading to number of operators in Nairobi County rising from 30 in 2000 to 140 in 2007(CCK ,2007).Parcel delivery clients often seek credit from several service providers at the same time compromising their ability to pay on time thus leading to default. Bringing people into a market by granting credit combined with assortment of external factors such as rising inflation, interest rates may actually force companies deeper into insolvency.

In a sure way that parcel delivery companies are going main stream, domestic and international companies are entering the tray motivated by excellent performance (CCK, 2010).

Stiff competition in corporate and retail parcel delivery segments continue to attract a number of companies to target small scale clients as the target. Parcel delivery has increasingly become competitive with entry of companies like N.T.L Parcels Ltd, Roy Parcels Ltd,Akamba parcels,D.H.L,G4 Securicor just to name but a few. In current competitive environment, parcel companies will triumph only if they are able to offer credit to clients with right credit strategies. Parcel delivery service is an integral part of competitive and diverse transport system that fosters innovation and growth in all segments of the country. Parcel sector brings an enormous potential and so are the challenges.

2.5.4 Credit Management Information System

According to Comptroller's handbook, 1998 the effectiveness of a firm's credit management system depends heavily on the quality of management information systems (MIS).Indeed, many of the credit sales today are supported by robust MIS that is available. At the same time, many companies are frustrated in their efforts to expand and eliminate default risks by the limitation of their MIS.Parcel companies face the same challenges and credit managers should be active proponents of the continued improvement of credit related MIS.While a parcel company's systems or technology may often impede MIS improvement, lack of understanding or poor communications between credit management and systems personnel can also do so. Credit related MIS helps management and the board to fulfill their respective oversight roles. Therefore, when assessing MIS produced reports, managers should determine whether the users are receiving the right kind of information at the right time. Reports to senior management and the board must be more than a presentation of numbers; they must be analytical in nature and allow users to draw independent conclusions. Summary reports presented in a concise format generally satisfy management needs. Line managers need different credit information with senior management and the board.Inorder to properly inform such different groups, a credit manager requires good system architecture. An ideal system would be able a parcel company to query, track and aggregate in all credit data fields; prepare a standard reports.

The best technology can be next to worthless if the data are not accurate. Only if data are updated periodically and out of date credit information purged, can MIS reports remain accurate and usefull.Preserving the reliability of MIS can be difficult in parcel companies that are rapidly expanding. Common data integrity problems include incorrect industry codes, failure to report delinquency, incomplete or outdated information on loan participations, failure to archive note origination dates, lack of clear reports and reporting lines, incorrect risk ratings or failure to archive risk rating when changes occur and omissions of off-balance sheet exposure. Credit review, credit administration and audit play a vital role in ensuring that the data is accurate. When MIS deficiencies or inaccuracies jeopardize or restrict credit management practices, managers should identify the root cause and initiate corrective action.

2.6 Theoretical Review

This section summarizes the main results obtained from studies on accounts receivable and credit management.

M Selvi in January 2011 published a research on study of Murugan Mills Ltd on credit management. He indicated that every organization needs liquidity cash for smooth running of its activities. Credit management serves as a link between production and sales. The credit sales are the most significant part of the long run process in organization. For purpose of making the credit management organizations use credit policies which can be strict or lenient. Strict credit policy may be felt to lose customers; lenient policies may result to loss due to bad debt. So the company should follow optimum credit policy. A firm neglecting the management of accounts receivable will be jeopardizing its long rum profitability and may fail ultimately.

Anders Isaksson in May 2002 published a research report on a study of more than 200 Kenyan manufacturing firms on credit management. He indicated that accounts receivable constituted an important part of Kenyan firms' balance sheet item and therefore greater attention should be given.

Martin H.Seiden of New York National bureau of Economic research studied the quality of accounts receivable and observed credit management is critical for liquidity purposes of organizations. A larger share of the working capital and equipment needs of business has been financed through the normal channel of commercial banks due to poor management of accounts receivable. This has made credit management probably a critical area to look at. Also, an area which has been neglected. The credit extended between business firms has been until now a neglected area of financial study, yet changes in its quality should foreshadow changes in the quality of the credit management of the organizations and industry at large. Accounts receivable probably undergoes sharper quality changes than most other types of balance sheet assets.

Prior studies find that accounts receivable constitutes a large proportion of total assets. Rajan and Zingales (1995) find that the ratio of aggregate accounts receivable to total assets was 17.8% for US firms in the early 1990s, while Bartholdy and Mateus (2008) show that this ratio is between 16% and 24% across sixteen European countries.

Petersen and Rajan,1997;Nilsen,2002;Fishman and Love,2003;Atanasova,2007 studies on credit risk conclude that account receivable is very crucial for firms as a source of liquidity and security for short term institutional financing. This makes it so much material for adequate and proper management.

Cuevas et al (1993) study of trade credit in Ghana finds that trade credit is the most important source of external financing for small firms. However, trade credit is also of significant importance for larger establishments. This result leads the authors to draw the following policy conclusion: targeting criteria should take into account the market structure of the industries in question and analyze how the firms adequately manage their credit risk.

For Zimbabwean firms, Fafchamps, Pender, and Robinson (1995) found that firms were also facing challenges in maintaining qualitative accounts receivable. The reason why accounts receivable concern was used in this study is that it improves the firms' ability to manage their cash flow needs, but there were some evidence for White firms that there were many challenges affecting this endeavor. Small firms also appear to self-ration because they fear that a cash-flow shock may reduce their ability to repay and eventually lead to default.

Fafchamps (2000) focuses on the importance of credit management in Zimbabwe and Kenya. Another interesting result is that credit management is more prevalent in Zimbabwe than in Kenya, which is explained by the existence of a formal credit reference bureau in Zimbabwe.

Credit management is a significant area of financial management, and its administration may have important effects on a firm's profitability and liquidity (Shin and Soenen, 1998), and consequently its value. Thus management of accounts receivable should involve a trade off between benefits and costs that affect the value of firms.

2.7 Gaps to be Filled by the Study

Studies have focused on credit and loan quality management in commercial banks and some on micro-finance institutions and banks, but none has targeted factors affecting quality of accounts receivable of parcel companies. Parcel companies face unique challenges as they are at the centre of producers and end consumers. The study established the crucial factors affecting accounts receivable of parcel companies in Nairobi County.

This study will extend previous work on credit management in several ways. First, whereas previous studies have been limited by lack of adequate data and assumptions of sampling error, this study takes the advantage of having to study all licensed parcel operators in Nairobi County. Second, previous studies tended to focus only on one or very few determinants, while the surveys themselves suggest many explanatory variables. In this study, therefore, a more detailed view on credit management will be provided.

Previous empirical studies have indicated that accounts receivable constitutes an important share in the balance sheets of many firms (e.g. Cuevas et. al, 1993). The results obtained here support that view.

2.8 Conceptual Framework

The main variables of the study are factors affecting performance of accounts receivable in parcel companies in Nairobi County. It is imperative that companies may have credit management practices. The companies must then continually look at their credit management policies, analyze their credit management policy compliance, ascertain its credit management skills and monitor the level of competition affecting the organization with a view to attaining quality accounts receivable. With these four variables adequately addressed, the quality of accounts receivable will be expected to be good. The independent variables thus include credit management policies, credit management skills, competition and credit management information system. The dependent variable is the company's accounts receivable portfolio.

The result is in summary as illustrated in figure 2.1 shown below.

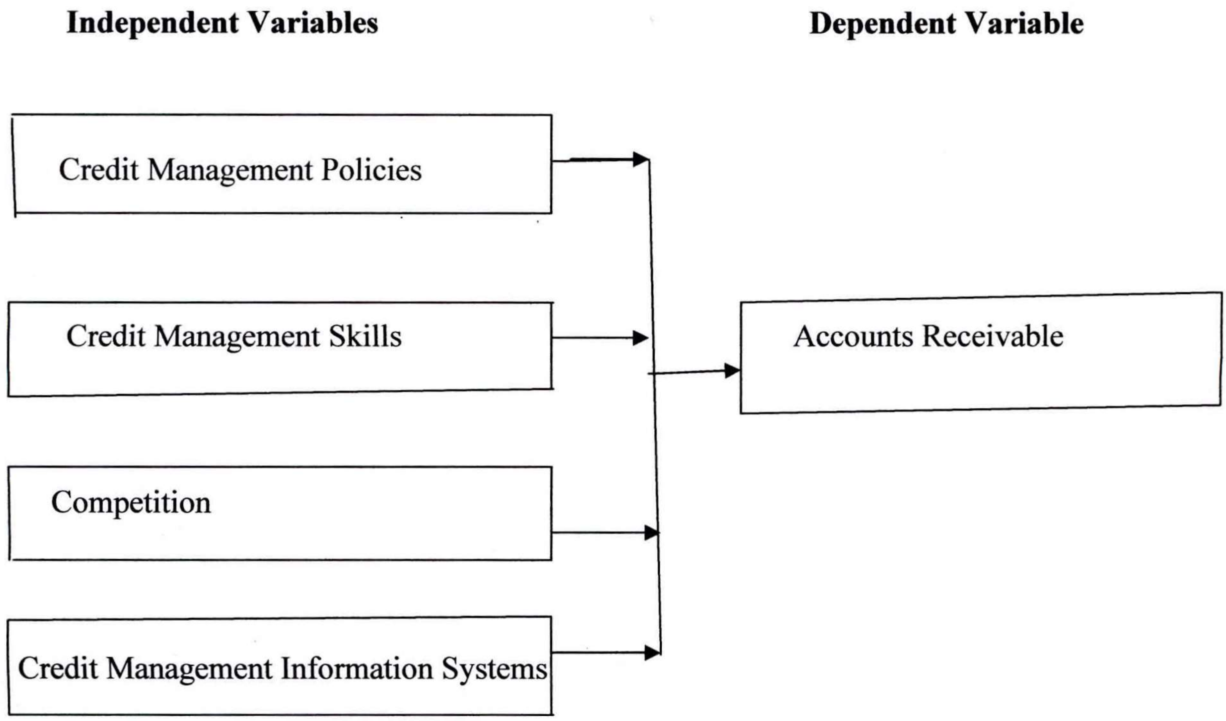

Figure 2.1: Conceptual Framework

Source : Researcher (2011)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction to Methodology

This chapter describes the methodology used as an aid to carry this study. It constitutes the blue print for collection, measurement and analysis of data. It is a plan for selecting the sources and types of information used to answer the research questions and meet the study objectives. It is also a framework for specifying the relationships among the study variables. It provides answers for such questions as; what techniques will be used to gather data? What population was studied? How will the data be collected? and finally, how will the data be analyzed and presented?.

3.1.1 Research Design

This research adopted descriptive research design. This is because it determines and reports the way things are (Gay, 1981).This approach is appropriate to this study because the study involves fact findings and enquires of different kinds to describe the state of affairs of parcel companies in Nairobi County. To effectively achieve this objective, the study used both quantitative and qualitative approaches. The use of two approaches combined reinforced each other (Kiggundu et al., 1993).

The researcher conducted a field study in the parcel companies in Nairobi County. The study was based on the use of questionnaire as a data collection instrument. The population of study was scattered since the parcel companies were located away from each other. Therefore, field study was appropriate. The data was collected and analyzed to provide the information to be used to describe and interpret various factors affecting accounts receivable. This design was useful in studying the inter-relations between the variables already mentioned in the conceptual framework. This design was adopted because it allows the collection of large amounts of data from the target population.

3.1.2 Target Population

The target population of this study was senior officials of eighty seven (87) parcel companies being studied. These companies were selected because they offer parcel delivery services and are located in Nairobi County. The study targeted the senior staff of each of the 87 selected companies directly involved in credit management.

3.1.3 Data Collection Instrument

The researcher modified the questionnaire to cover 4 aspects: credit management policies, credit management skills, competition and credit management information system.
The questionnaire included 19 closed-ended questions and 1 open end question, where 6 questions corresponded to credit management policies, 4 questions corresponded to credit management skills, 5 questions corresponded to competition and 5 questions to credit management information system. Respondents were asked to indicate their degree of agreement with questions.

3.1.4 Data Collection Procedure

According to the Communication Commissions of Kenya 2011 registered licensees, Kenya has 87 licensed postal /courier operators in Nairobi County either as intra-country, international, regional, intra-city or as international inbound operators.
The author with the help of a courier service company and electronic mails handed the questionnaires to the head offices and senior function managers already requested to kindly pass the questionnaires to the targeted officers. The questionnaires were distributed to those officers involved in credit management activities, namely senior credit management officers and senior credit officers.

3.1.5 Data Processing and Analysis

The researcher by use of MS Excel processed and analyzed the quantitative data. The data was summarized using descriptive statistics in form of tables, frequencies and percentages. Textual data was analyzed qualitatively.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Characteristics of Parcel Companies in Nairobi County

Parcel companies in Nairobi County are offering parcel delivery services that is any specialized service for collection, dispatch, conveyance, handling and delivery of postal articles. These companies are the intermediaries between manufacturers, retailers, jobbers and the end consumers. The service is mainly in the form of delivery of parcels from consignors to consignees whose payment terms are either cash on delivery or credit basis depending on the companies 'credit policies. However, the study established that some of the parcel companies like N.T.L Parcel Services Ltd engaged in warehousing services where they indirectly got parcel delivery services being their core business. A population of eighty seven (87) companies' head offices are based in Nairobi County. Table 4.1 shows that there was a response rate of 79% representing sixty nine (69) of the eighty seven (87) respondents targeted. The response was therefore good in that it fell within the allowable bracket of response rate ranging between 70% to 80%.Female respondents represented 32% of total respondents. Of the respondents whom questionnaire were received ,52% had credit management experience of less than five years,39% had experience of between 6-10 years, while 9% had experience of over 10 years. The study found that 74% of the respondents were from credit departments of the companies while 26% were from operations.

Table 4.1: Characteristics of the respondents (N=69)

Demographic Characteristics	**Categories**	**Frequency (n)**	**Percentage (%)**
	Male	47	68
Gender	Female	22	32
	Less than 5 years	36	52
Duration in	Between 6-10 years	27	39
Company	Over 10 years	6	9
	Credit	51	74
Department	Operations	18	26

Source: Researcher (2011)

4.2 Research Findings and Discussion

The purpose of this stage of the research is to present the analysis and findings on the factors affecting accounts receivable in parcel companies in Nairobi County. Data was obtained from respondents who were senior officials of the parcel companies. This stage presents the information from these sources; descriptive statistics and frequency distribution diagrams and tables were generated. This research analysis used quantitative data, according to Mugenda and Mugenda (2003), quantitative data refers to numerically expressed data, which is obtained either from assembled secondary data information or from the structured primary data information base.

4.2.1 Credit Management Policies and Accounts Receivable

The questionnaire includes six questions about credit management policies. Table 4.2 shows the responses mean to be 3.37, which indicates that parcel companies in Kenya are not efficient in their credit management policies.Infact averagely 63% confirms this argument.

The company's executives who give strategic focus to the management of accounts receivable of parcel companies in Nairobi County seem not to be fully on top of the review of the policies adequate for proper performance of accounts receivable. Question one which states'' The Company's executive regularly review the firm's performance on managing its accounts receivable'', confirms this with 74% of respondents disagreeing. It was established that failure by executives to give strategic focus affected management of accounts receivable. Officers in charge of accounts receivable management lack efficient strategies and policies; infact only eighteen companies' executives gave clear defined credit polices and targets to be achieved by the credit officers.

The respondents also confirmed that parcel companies averagely encourage training programs in the area of credit management as a policy to improve accounts receivable performance. This is confirmed by a mean of 2.81 which is 55% of the respondents. Only 43% of the respondents confirmed that their companies' policies strictly recruit highly qualified people in credit management, the rest recognized the multi-skills necessary in credit management functions. This explains why thirty nine (39) respondents felt that for parcel companies to improve performance of accounts receivable proper policy should be put in place from the acquisition of the credit officer through management of accounts receivable and continuous improvement to sustain great credit objectives.

The lowest mean value 2.43 occurs on question three, which states'' The company's accounts receivable policies and procedures are documented and provide guidance to staff about managing accounts receivable''.This also confirms that parcel companies in Nairobi County intend to have efficient credit management. Credit management policy was established to be very critical in order to achieve credit objectives by the parcel companies. It was found out that credit policies are general course of action for recurring situations in order to achieve the credit objectives. The study established four main reasons to have a written credit policy. First, the responsibility of managing accounts receivable is a serious undertaking, it involves limiting bad debts and improving cash flow. With outstanding accounts receivable often being a firm's major asset, it was established that a reasoned and structured approach to accounts receivable management is necessary. Second, it was found out that a credit management policy assures a degree of consistency among parcel companies' departments. By writing down what is expected, the arms of the company (whether marketing, or finance) will realize that they have a common set of goals. Conversely, a written policy can delineate each department's functions so that duplication of effort and needless friction are avoided. Third, it was established that it provided for a consistent approach among customers, decision making becomes a logical function based on pre-determined parameters. This simplifies the decision process and yields a sense of fairness that will only improve customer relations. Finally, it can provide some recognition of the credit department as a separate entity, one which is worthy of providing input into the overall strategy of the firm. It was established that detailed credit management policy leaves little room for doubt since procedures are spelled out and employees need only refer to their manual to know how to manage credit and accounts receivable. There will be no gray areas between departments and consistency will reign. On the other hand a long and excessively detailed credit management policy can limit employee creativity or empowerment. New ideas on how to manage accounts receivable in a changing world will be superseded by a set of omniscient regulations. Also, a huge volume of rules can be overwhelming. The highest value occurs on question two, which states'' Your Company has a highly effective continuous review on accounts receivable policies''. 88% of the respondents confirm that they don't have effective reviews on credit control policies. The answers give an indication that parcel companies in Nairobi County do not continuously review their accounts receivable policies to assess their effectiveness and ascertain need for improvement. It was established that review of the credit management policies was very important to strengthen management of accounts receivable as policies need improvement as a result of changing operational environment. The questionnaire includes a general question about credit management policies:''Overally, I consider the credit management policies in this company to be excellent. 'The mean of the responses is 4.12 with 88% of the respondents supporting the above arguments regarding inefficiency in credit management policies. It was therefore established that parcel companies need to decide on how much credit they are willing to extend to their customers and under what circumstances. There was no one-size-fits-all credit management policy, a parcel company's policy should be based on its particular business and cash-flow circumstances, industry standards, current economic conditions and the degree of risk involved. As a company creates its policy, they should consider the link between credit and sales. Easy credit terms can be an excellent way to boost sales, but they can also increase losses if customers default.

Table 4.2: Summary of responses on Credit Management Policies and Accounts Receivable

Statements	Frequency of 4 & 5	Percentage (%)	Mean
The company's executive management regularly review the firm's performance on managing its accounts receivable	51	74	3.51
Your company has a highly effective continuous review on accounts receivable management strategies	61	88	4.16
The company's accounts receivable policies and procedures are documented and provide guidance to staff about managing accounts receivable	21	30	2.43
Your company's policy encourages training programs in the area of credit management	31	45	2.81
The company emphasizes the recruitment of highly qualified people in credit management	39	57	3.20
Overally,I consider the credit management policies in this company to be excellent	57	83	4.12
Overall mean		63	3.37

Source: Researcher (2011)

4.2.2 Credit Management Skills and Accounts Receivable

The questionnaire includes four questions about credit management skills. The results of the responses are shown in Table 4.3.The mean of the responses on the four questions is 3.68 which indicates that on average 74% of the parcel companies in Nairobi County do not have efficient credit management skills. It was established that most companies do not analyze skills before granting accounts receivable management job.78% of the respondents confirmed that their companies did not perform any skills analysis. Whereas small parcel companies gave credit with little or no credit training or skills the growth of the companies remained untapped for lack of basic credit management skills due to large amounts of accounts receivable.

It was established that most parcel companies do not encouraging continuous credit management training to improve their ability to manage accounts receivable. This is confirmed by 71% of the respondents. The research therefore established that parcel companies in Nairobi County require continuous training in tandem with expanding credit requirements of the clients if they are to manage accounts receivable effectively. Although the skills of managing credit in parcel companies may not be considered critical by companies, it was very important for fostering more rapid growth of parcel companies. Parcel companies offer gradually increasing credit amounts that pointed to the need of incremental training and credit management skills as their businesses grow.

It was established that continued training on credit management skills is important in lifting the abilities of credit officers to leverage credit into strategic position and greater profitability. However, few parcel companies in Nairobi County appreciate any sort of such training. As the main aim of credit programme by a company would be to achieve quality accounts receivable at any period of time, training programs are crucial for the achievement of such intended goal.

It was established that some parcel companies undertake training programs either as a pre-condition for credit or as a requirement during debt collection and others make opportunity available for clients. It can also be seen from the table that there is no big difference between the means of the four questions, a reflection that respondents viewed fairly equally the questions of credit management skills. Only 30% of the respondents assessed credit management skills using qualitative methods thereby knowing their skills positions.75% of the respondents confirmed that they did not benchmark their credit management skills with other players in the industry.

The research found out that 75% of the companies do not benchmark their accounts receivable management practices. It was established that larger accounts receivable amounts require parcel companies to explore more credit information about the clients and generally about accounts receivable and credit management. This can either be by inventing more creative credit measures that would improve the liquidity positions of the parcel companies. As this happened credit management was established to have become more complex requiring fundamental credit management skills to spur the growth of companies into the next levels of transport companies.

Table 4.3: Summary on responses on Credit Management Skills and Accounts Receivable

Statements	Frequency of 4 & 5	Percentage (%)	Mean
This company undertakes skills analysis before granting credit management job	54	78	3.51
Your company credit management skills are assessed using qualitative analysis method(e.g.high,moderate,low)	48	70	3.28
The company frequently benchmarks its credit management skills with other players in the industry	52	75	4.09
Your company encourages continuous improvement training in credit management	49	71	3.87
Overall		74	3.68

Source: Researcher (2011)

4.2.3 Competition and Accounts Receivable

Parcel companies in Nairobi County are relatively efficient in managing competition with the responses mean at 2.73 which is 59% of the respondents.86% of the respondents assesses the likelihood of competition and its effects on the company operations which is very critical on deciding on the tools and strategies and whether or not to react to competition.

The research established that Kenyan parcel delivery landscape has dramatically changed and the implications are increased competition leading to number of operators in Nairobi County. It was also established that parcel companies' clients often seek credit from several service providers at the same time compromising their ability to pay on time thus leading to default. In a sure way that parcel delivery companies were going main stream, domestic and international companies were entering the tray motivated by excellent performance. From the research it emerged that stiff competition in corporate and retail parcel delivery segments continue to attract a number of companies to target small scale clients as the target. Parcel delivery has increasingly become competitive with entry of companies like N.T.L Parcels Ltd, Roy Parcels Ltd, Akamba parcels, D.H.L, G 4 Securicor just to name but a few. The research established that in current competitive environment, parcel companies will triumph only if they are able to offer credit to clients with right credit strategies. Parcel delivery service is an integral part of competitive and diverse transport system that fosters innovation and growth in all segments of the country. Parcel sector brings an enormous potential and so is the competition. The type and nature of competition determines whether a parcel company offers the delivery services on cash or credit terms resulting into accounts receivable. Even if the parcel companies clearly identify this assertion, they are striving to its efficient analysis, prioritization, response, assessment and management and control. However,64% of the respondents confirmed that their companies did not prioritize competition and selecting those that needed active management. This in some companies resulted into higher costs associated to managing competition. Only 42% of the respondents responded to competition by evaluating the effectiveness of existing controls and credit responses.90% of the respondents confirmed that their companies consider the importance of costs and benefits assessment of competition before any response is undertaken. Monitoring the effectiveness of controls as an integral part of routine competition reporting was confirmed not to be effective as only 42% of the respondent companies practiced this. This confirms the assertion that parcel companies are not yet efficient in completion management.

Table 4.4 Summary of Responses on Competition and Accounts Receivable

Statements	Frequency of 4 & 5	Percentage (%)	Mean
The company assesses the likelihood of competition and its effects on company's operations	10	14	2.03
This company prioritizes competition and selecting those that need active management	44	64	3.33
The company's response to competition includes evaluation of the effectiveness of existing controls and credit management responses	40	58	3.29
Your company's response to competition includes an assessment of costs and benefits of addressing competition	7	10	1.86
Monitoring the effectiveness of controls is an integral part of routine competition reporting	40	58	3.13
Overall		41	2.73

Source: Researcher (2011)

4.2.4.1 Credit Management Information System and Accounts Receivable

The research established that management of accounts receivable can be enhanced by the use of the information technology put in place by the parcel companies. The technology supports the kind of efficiency that organizations need in managing accounts receivable. Table 4.5 overally confirms that credit management information systems were not efficient in most of the companies. In determining efficiency and effects of the systems 59% of the respondents indicated that reporting and effective communication processes within their companies supported effective management of accounts receivable. The research established that the effectiveness of a firm's credit management information system depends heavily on the quality of management information systems (MIS).Indeed, many of the credit sales today are supported by robust MIS that is available. It was established that ineffective credit management system don't provide accurate credit information to help manage accounts receivable leading to defaults. At the same time, many parcel companies are frustrated in their efforts to expand and eliminate default risks by the limitation of their MIS.While a parcel company's systems or technology may often impede MIS improvement, lack of understanding or poor communications between credit management and systems personnel can also do so. It was established that credit related MIS helps management and the board to fulfill their respective oversight roles on accounts receivable management. Therefore, when assessing MIS produced reports, managers determined whether the users are receiving the right kind of information at the right time. The research found out that the best technology can be next to worthless if the data are not accurate. Only if data are updated periodically and out of date credit information purged, can MIS reports remain accurate and useful. Credit review, credit administration and audit play a vital role in ensuring that the data is accurate. Credit information analysis before giving credit was higher in mean at 3.48 which indicates that only 38% of the respondents were analyzing the nature of credit information before granting credit. The research established that this led to poor credit decisions and large accumulated accounts receivable finally the overall parcel companies' operations. The questionnaire included a general question about support of CMIS on oversight roles. The mean of the responses is 3.36, which supports the above arguments regarding efficiency of CMIS in managing accounts receivable.

Table 4.5: Summary of Responses on Credit Management Information Systems and Accounts Receivable

Statements	Frequency of 4 & 5	Percentage (%)	Mean
Reporting and effective communication processes within the company supports effective management of accounts receivable	28	41	2.71
This company undertakes a credit information analysis before granting credit	43	62	3.48
Your company credit management information system support oversight roles	40	58	3.36
Overall		54	3.18

Source: Researcher (2011)

4.2.4.2 Analysis of Response on the Credit Management Information System Tools Adopted by the Companies

The respondents were asked to indicate what credit management information tools were adopted by their companies. The study found that general accounting applications were used by 59% of the respondents as information tools.31% of the respondents identified Effective resource planning (ERP) as a tool applied while 10% indicated Manual record systems were utilized in their companies. None of the respondents indicated that their companies had no credit management information systems tools. The research established that ERPs were more effective in supporting management of accounts receivable than general accounting applications. Table 4.6 gives a summary of the findings.

Table 4.6: Summary of the findings on Credit Management Information System Tools

Credit Management Information Systems Tool	Frequency (n)	Percentage (%)
Effective Resource Planning	21	31
General accounting applications	41	59
Manual record systems	7	10
No credit information tool	0	0

Source: Researcher (2011)

4.2.4.3 Findings on limitations of credit management information systems to the companies

The CMIS is a tool parcel companies in Nairobi County use to obtain reliable credit information regarding its business operations. The CMIS should not be concerned with whether the information can be retrieved, but rather how and what information should be retrieved so management can make effective decisions. Once information is provided through the CMIS, decisions can be made regarding the effectiveness of business operations and in relations to accounts receivable. The respondents confirmed that limitations do exist with the CMIS and can be summarized as the expense to create and implement the CMIS, training time for employees, lack of flexibility and capturing wrong or incomplete information.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

Parcel companies are in the business of delivery of parcels from and to their customers and managing accounts receivable are for their benefit. This study was therefore necessary to establish how credit management policies, credit management skills, competition and credit management information systems affect accounts receivable of Kenyan parcel companies in Nairobi County.Inorder to achieve this, data was collected and analyzed leading to some major findings of the study. These are represented below.

The general objective of this study was to determine the factors affecting accounts receivable in parcel companies in Nairobi County. The study established that parcel companies in Nairobi County are not efficient in credit management. Of the six questions on credit management policies on a five-point likert scale, the highest response was on the question of whether parcel companies' have effective continuous review on accounts receivable management policies.88% of the respondents disagreed. This also confirms that parcel companies in Nairobi County have inefficient credit management policies.

The second objective of this study was to determine the effects of credit management policies on accounts receivables in parcel companies in Nairobi County. The study found out that parcel companies are not efficient on the use of credit management policies. The study established that parcel companies in Nairobi County partly or sometimes do not implement the recognized credit management policies. The study further established that the executive management of the companies' were not regularly reviewing the accounts receivable management policies, infact only 26% of respondents confirmed that their executives were on this strategic critical responsibility to ascertain good quality of accounts receivable.

The third objective of the study was to find out the extent to which credit management skills affects accounts receivable in parcel companies in Nairobi County. Of the entire lickert scale questionnaire this was the objective with negative responses at mean of 3.68.The study established that parcel companies in Nairobi County inefficiently undertake skills analysis before granting any credit management job. The study confirmed that only 30% of the parcel companies were able to assess qualitatively the credit management skills. This means that most companies do not know whether their existing pool of skills is capable of dealing with the persistent changes in credit and accounts receivable management. The study established 71% of the respondent companies do not encourage continuous training in credit management. Only 25% of the parcel companies in Nairobi County were benchmarking their credit management skills with other players in the industry. This also confirms the previous assertion that they are not efficient in managing accounts receivable because they don't recognize the changes as and when they come with best in the industry.

The fourth objective of the study was to find out the extent to which competition affects accounts receivable in parcel companies in Nairobi County. The study established that competition is a critical factor affecting whether the companies offer services in cash or credit resulting into accounts receivable. Out of the sixty nine respondents eighty six percent assesses the likelihood of competition and its effects on their companies operations. It emerged that this assessment has a positive relationship on the accounts receivable. However; the companies have challenges in prioritizing and only selecting those that need active management. The study also established that parcel companies assess the costs and benefits of addressing the competition.

The fifth objective of the study was to determine the effects of credit management information system on accounts receivable of parcel companies in Nairobi County. The study established that most companies still use general accounting applications that do not have adequate capabilities to give proper credit information. Only 31% of the companies used ERPs which were viewed as more efficient in integrating necessary credit information and able to facilitate credit management. 10% of the companies had no systems. It was also established that these credit information tools had limitations such as expense to create and implement the CMIS, training time for employees, lack of flexibility and capturing wrong or incomplete information. The study established that reporting and communication processes within the companies supported effective accounts receivable management. This is confirmed by 59% of the respondents. However, it was established by 58% of the respondents that CMIS did not efficiently support oversight roles.

5.2 Conclusions

The purpose of this study was to determine factors affecting accounts receivable in parcel companies in Nairobi County. Among the factors investigated in the study included credit management policies, credit management skills, competition and credit management information system. The study found that parcel companies in Nairobi County are not efficient in the aforementioned factors.

The study established that the companies' credit management procedures and processes are documented and provide guidance to staff about managing accounts receivable. This is an indication of the companies' intent to have credit management incorporated in all aspects of their business at all levels and all the time. The study also established that the companies do not have effective continuous review on accounts receivable management strategies and performance with the executive not fully involved in this process of review. Overall, most respondents (83%) felt that their companies' credit management policies were not excellent.

The study established that the companies were not fully efficient in credit analysis. The study established that the companies had few measures in place to analyze clients before granting credit. Among the measures not fully utilized were undertaking credit worthiness analysis before giving credit, specifically analyzing clients' characters, capacity and guarantee. Other measures to improve credit analysis included classifying clients according to risk factors (risk rating) and reducing the level of credit granted to defaulting clients.

The study established that credit information system was critical for effectiveness of credit management and as an integral part of routine management reporting and that the reporting and communication processes within the companies' did not support effective management of accounts receivable. According to the research credit management in most companies were not excellent.

A question was asked about whether staff considered the accounts receivable of their companies to be excellent, eighty three percent of the respondents felt that their management accounts receivables were not excellent. The questionnaire included a general question about credit management policies:''Overally, I consider the level of credit management policies in this company to be excellent''.The mean of the population responses was 3.37, which indicates that the companies don't have efficient credit management policies. It can thus be concluded that there is a negative correlation between credit management policies of the companies and accounts receivable management.

The research established that parcel companies in Nairobi County require continuous training in tandem with expanding credit requirements of clients if they are to manage accounts receivable effectively. Although the skills of managing credit in parcel companies may not be considered critical by companies, it was very important for fostering more rapid growth of parcel companies. Parcel companies offer gradually increasing credit amounts that pointed to the need of incremental training and credit management skills is important in lifting the abilities of credit officers to leverage credit into strategic position and greater profitability.

The research established that Kenyan parcel delivery landscape has dramatically changed and the implications are increased competition leading to number of operators in Nairobi County. It was also established that parcel companies' clients often seek credit from several service providers at same time compromising their ability to pay on time thus leading to default. From research it emerged that still competition in corporate and retail parcel delivery segments continue to attract a number of companies to target small scale clients as the target.

The study established that credit information system was critical for effectiveness of credit management and as an integral part of routine management reporting and that the reporting and communication processes within the companies' did not support effective management of accounts receivable. According to the research credit management in most companies were not excellent.

5.3 Recommendations

There is need for parcel companies in Nairobi County to undertake continuous benchmarking of their accounts receivable management strategies and policies with other players in the industry. There is also need for companies to continuously align their policies with global best practices. As can be seen from the study, the companies' use of credit reference bureaus was mostly low. Parcel companies therefore needs to decide on how much credit they are willing to extend to their customers and under what circumstances. There was no one-size-fits-all credit management policy, a parcel company's policy should be based on its particular business and cash-flow circumstances, industry standards, current economic conditions and the degree of risk involved. As a company creates its policy, they should consider the link between credit and sales. Easy credit terms can be an excellent way to boost sales, but they can also increase losses if customers default. Larger accounts receivable amounts require parcel companies to explore more credit information about the clients and generally about accounts receivable and credit management. This can either be by inventing more creative credit measures that would improve the liquidity positions of the parcel companies. Credit management skills are important in lifting the abilities of credit officers to leverage credit into strategic position and greater profitability. However, few parcel companies in Nairobi County appreciate any sort of such training. As the main aim of credit programme by a company would be to achieve quality accounts receivable at any period of time, training programs are crucial for the achievement of such intended goal. It was established that some parcel companies undertake training programs either as a pre-condition for credit or as a requirement during debt collection and others make opportunity available for clients. There is need for parcel companies to formulate policies that encourage continuous training of their staff on credit management. Such training will place emphasis on the critical importance of credit management at any point as well as keep staff informed of new trends and techniques in credit and accounts receivable management.

The current competitive environment, parcel companies will triumph only if they are able to offer credit to clients with right credit strategies. Parcel delivery service is an integral part of competitive and diverse transport system that fosters innovation and growth in all segments of the country. Parcel sector brings an enormous potential and so is the competition.

Parcel companies need to put effective credit management information system that supports accounts receivable management and provides accurate information on clients to be used in analysis and offering of credit to customers. Indeed, many of the credit sales today are supported by robust MIS that is available.

The parcel companies need to increase reliance on other appraisals so as to reduce the costs of debt recovery from their clients. Such methods include risk taking, whereby clients rated to have lower risks can access credit amounts of higher value than their guarantee, as long as their current and projected cash flows are supportive of such credit The current trend among businesses in Kenya is expansion of operations in terms of outlets (branches).It is highly recommended that management of this growth include strict adherence to internal credit management policies as well as internally recognized guidelines on credit and accounts receivable management.

5.4 Suggestion for Further Research

Before the enactment of Communication commission of Kenya Act, parcel companies were not under the supervision of the Communication Commission of Kenya. Therefore parcel service was not hitherto a major pre-occupation for CCK.There is thus need for further research on the capacity of CCK to supervise the parcel service's activity of companies and provide guidance.

There is need for study on the use and effectiveness of outsourcing recovery of non-performing accounts receivable to debt collectors who are specialists with better recovery techniques.

There is need for research on the role played by the recently established credit reference bureaus and their effectiveness in improving accounts receivables.

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APPENDIX I

QUESTIONNAIRE

NAME…………………………………………………………………………………

EMPLOYER……………………………………………………………………………

DESIGNATION…………………………………………………………………………..

YEARS IN PARCEL SERVICE INDUSTRY: Less than 5 years ☐

Between 6 and 10 years ☐

Over 10 years ☐

Please tick as appropriate on lickert-scale questionnaire below.

1. Strongly agree 2.Agree 3.Indifferent 4.Disagree 5.Strongly disagree

	Strongly agree 1	2	3	4	Strongly disagree 5
Credit Management Policies					
1. The company's executive management regularly review the firm's performance on managing its accounts receivable.	☐	☐	☐	☐	☐
2. Your company has a highly effective continous review on accounts receivable management strategies.	☐	☐	☐	☐	☐
3. The company's accounts receivable policies and procedures are documented and provide guidance to staff about managing accounts receivable.	☐	☐	☐	☐	☐

Please tick as appropriate on lickert-scale below.

1. Strongly agree 2.Agree 3.Indifferent 4.Disagree 5.Strongly disagree

	Strongly agree 1	2	3	4	Strongly disagree 5
4. Your company's policy encourages training programs in the area of credit management.					
5. The company emphasizes the recruitment of highly qualified people in credit management.					
6. Overally, I consider the credit management policies in this company to excellent.					

Credit Management Skills

1. This company undertakes skills analysis before granting credit management job.					
2. Your company credit management skills are assessed using qualitative analysis method (e.g. high, moderate, low)					
3. The company frequently benchmarks its credit management skills with other players in the industry.					
4. Your company encourages continuous improvement training in credit management.					

Competition

1. The company assesses the likelihood of competition and its effects on company's operations.					
2. This company prioritizes competition and selecting those that need active management.					
3. The company's response to competition					

includes evaluation of the effectiveness of existing controls andcredit management responses.

Please tick as appropriate on lickert-scale below.

1. Strongly agree 2.Agree 3.Indifferent 4.Disagree 5.Strongly disagree

	Strongly agree 1	2	3	4	Strongly disagree 5
4. Your company's response to competition includes an assessment of costs and benefits of addressing competition.					
5. Monitoring the effectiveness of controls is an integral part of routine competition reporting.					

Credit Management Information Systems

1. What credit management information systems tool have been adopted by your company?

(a) Effective Resource Planning (ERP).

(b) General accounting applications.

(c) Manual record systems.

(d) No credit information tool.

2. What limitations do these credit management information system (CMIS) pose to your company?

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Please tick as appropriate on lickert-scale questionnaire below.

1. Strongly agree 2.Agree 3.Indifferent 4.Disagree 5.Strongly disagree

	Strongly agree 1	2	3	4	Strongly disagree 5
3. Reporting and effective communication processes within the company supports effective management of credit.					
4. This company undertakes a credit information analysis before granting credit.					
5. Your company Credit management information system (CMIS) support oversight roles.					

APPENDIX II

NAIROBI POSTAL LICENCEES REGISTER AS AT NOVEMBER 2011

	NAME	TOWN
1	Adonai Logistics& Freight Services	Nairobi
2	Air Care Chatterers &Brokers Ltd (TNT)	Nairobi
3	Akamba Public Road Services Ltd	Nairobi
4	Al-micdad Parcel Services	Nairobi
5	Ambassador Courier Services Ltd	Nairobi
6	AXA Courier Limited	Nairobi
7	Bisharo Parcel Services Limited	Nairobi
8	Blessings Parcels Services	Nairobi
9	Bob Morgan Services	Nairobi
10	Capricorn Freight Agency Limited	Nairobi
11	Classic Parcel Handlers	Nairobi
12	Crown Courier Ltd	Nairobi
13	Data Rush Services Ltd	Nairobi
14	Derricon Agencies	Nairobi
15	DHL Worldwide Express Ltd	Nairobi
16	Dial A Delivery Limited	Nairobi
17	Document Express Courier Ltd	Nairobi
18	East African Courier Ltd (FedEx)	Nairobi
21	Eazylink Courier	Nairobi
24	Elite Courier & Errands Kenya Limited	Nairobi
26	Errands & Chores Professional Limited	Nairobi
28	Executive Errands and Delivery Services	Nairobi
29	Fargo Courier Limited	Nairobi
30	Fast Courier Services	Nairobi
31	First Flight Courier (Africa) Ltd	Nairobi
32	Freight In Time Ltd	Nairobi
33	G4S Securicor Security Services K Ltd	Nairobi
34	Ganatra Parcel Services Ltd	Nairobi
35	Gateway Courier Services Limited	Nairobi
36	Grande Afrique Limited	Nairobi
37	Hatari Security Guards Ltd	Nairobi
38	Intelligent Logistics Solutions Limited	Nairobi
39	In-Time Couriers Ltd	Nairobi
40	Jet Courier Services	Nairobi
41	Karen Plains Courier Limited	Nairobi
42	Kinatwa Sacco Limited	Nairobi

43	Mail Managers Ltd	Nairobi
44	Mardav Courier Limited	Nairobi
45	Mark flash Company Limited	Nairobi
46	Master Piece Courier Services	Nairobi
47	Mololine Services Ltd	Nairobi
48	Muthiani and Sons Supply Chain	Nairobi
49	N.T.L. Parcel Services	Nairobi
50	Naekana Route 134 Sacco Ltd	Nairobi
51	Nairobi Meru Investments Co. Ltd	Nairobi
52	Nation Carrier Division	Nairobi
53	Netlink Business Services	Nairobi
54	Nucleur Investments Ltd	Nairobi
55	One World Courier Ltd	Nairobi
56	Pan Africa Express Transport Limited	Nairobi
57	Petty Errands Ltd	Nairobi
58	Postal Corporation of Kenya,	Nairobi
59	Power Speed	Nairobi
60	Prestige Courier Services Limited	Nairobi
61	Prime Group Ltd	Nairobi
62	PSACAM Courier	Nairobi
63	Quantum Freight & Cargo Ltd	Nairobi
64	Quicklink Courier Service	Nairobi
65	Rapat Freight (K) Ltd	Nairobi
66	Real Time Courier	Nairobi
67	Reliance Courier Services Ltd	Nairobi
68	Riley Services Limited	Nairobi
69	RISING freight Ltd	Nairobi
70	Roy Parcel Services Ltd	Nairobi
71	Rush Nairobi	Nairobi
72	Sasa Parcels & Document Ltd	Nairobi
73	Silver Star Parcel Services Ltd	Nairobi
74	Skynet Worldwide Express Ltd	Nairobi
75	Speedex Logistics Limited	Nairobi
76	Spinix Express	Nairobi
77	The Dropping Zone Ltd	Nairobi
78	TNT International Express	Nairobi
79	Tomic Express Services Ltd,	Nairobi
80	Topdeck Courier Services	Nairobi
81	Transami K Ltd	Nairobi
82	Two Four Seven Services Limited	Nairobi
83	Union Express Ltd (UNEX)	Nairobi
84	Urban Cargo Networks Limited	Nairobi

85	Virgin Courier	Nairobi
86	World Courier S. A. Ltd	Nairobi
87	Xpress IT Courier	Nairobi