

The Influence of Credit Management on Fast-Moving Consumer Goods Profitability in Ghana. A Case Study of Fareast Mercantile Company Ltd

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1. Introduction

1.1 Background of the Study

An important question that business managers need to ask themselves is how long it takes business partners to pay their debts? Understanding the payment behaviour of potential customers is vital in assessing credit management in every organisation, since poor credit assessment can lead to major problems in financial planning (Fletschner, 2009). According to Chandra (2008), payment delays and payment defaults continue to be major issues around the world. A study by Marfo-Yiadom and Agyei (2010) found that as high as 30% of debts are paid late while 3% defaulted on, and the primary reason for these is that the buyers have insufficient funds to pay.

Problems with payments defaults are normally identified at the end of the credit channel (Rehn, 2012). Nevertheless, there are cases where the ways in which a business monitors its credits can be responsible for the payment defaults. In other words, weak credit management systems can also be sources of problems of customer defaults (Tony & Watson, 2010). Credit management processes can be summarised into three stages namely; credit initiation, documentation and disbursement, and credit administration (Marfo-Yiadom & Agyei, 2010). At each stage of the credit management process, there is an inherent credit risk.

Credit risk is the potential that a credit customer or counter party will fail to meet its obligations in accordance with agreed terms. The goal of credit management is to minimize a business' risk by maintaining credit risks exposure within acceptable parameters (Tony & Watson, 2010). Businesses need to manage the credit risk inherent in individual credit

or transactions. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of an organisation.

1.2 Profile of the Organization

Fareast Mercantile Company Ltd. (Fareast) is a member of the Chanrai Summit Group and DP World which has many entities scattered in Africa and Asia. Fareast Mercantile was first established in Ghana in 60s and was closed down in 1970 after operating for a decade due to political and economic turmoil. The Company returned to Ghana in 1997 and has since then built a sustainable and strong business model which has made its mark over the years as a premier supply chain management company. Fareast has established itself as a leading importer and distributor of different branded consumer goods and pharmaceuticals products. The Company has been very successful in partnering with multinational corporations and other world-class businesses for marketing and distributing their products. Fareast has made huge investments into its branch network well sustained by skilled and experienced manpower, infrastructure, and vehicles to safeguard the availability and accessibility of across the length and breadth of Ghana.

1.2.1 Mission and Vision

The mission of Fareast is to place products across the country guaranteeing availability, affordability, visibility and accessibility within the reach of the consumer. The Company has a vision to be the leading sales, supply chain and distribution company in Africa.

1.2.2 Values

The values of Fareast are as follows:

- Prioritise Customers;
- Collaborate to win;
- Deliver growth;
- Adapt and evolve; and
- Build for a better future.

1.2.3 Products of Fareast

Fareast sells a wide-range of goods under three main categories: food, non-food, and beverages. The major food brands include Blue Band, Luna (milk), Quaker (oats), Heinz (mayonnaise, ketchup and baked beans), McVitie's (biscuits), among others. The major non-food brands include Dettol (antiseptics and soaps), Weave Ghana (beauty products), Nivea (deodorants, creams etc.), Dark and Lovely (beauty products), Malizia (perfumes), and Colgate (toothpaste). The major beverages include (Power horse), and Ghana Cadbury (chocolate drinks).

1.3 Business Issue Statement

In Ghana, the fast-moving consumer goods (FMCG) sector is highly competitive and every company attempts to appeal and win customers through various distribution strategies (Tetteh, 2015). The FMCG industry in Ghana is highly saturated with fierce competitive companies' working very hard to reduce cost, win new customers and retain existing ones and increase profit to ensure sustainable development of their businesses amidst rising costs from import duties, taxes, and high inflation (Tetteh, 2015).

Fareast is faced with both a competitive and dynamic market setting, though the company is doing many things to maintain its leadership role in the industry. The company has also adopted both direct and indirect marketing strategies as the basis for its sales operations including providing credit facilities to its customers. This strategy can help the company to maintain its position in the market. According to Gill (2010) credit facilities are one of the most significant drivers of business growth in terms of sales volumes.

However, Berry and Jarvis (2006) have cautioned that before a business comes up with a credit policy that will optimize its performance, it has to weigh the options between the increase in sales revenue and the additional administrative costs associated with the increase in trade receivables. A business should also consider the level of risk its ready to face while extending credit to its customers since some may be unable to pay when their debt falls due (Berry & Jarvis, 2006).

It has become necessary therefore, for Fareast to continue to review its credit management policy to ensure that there is a balance between selling on credit to boost sales revenue and managing credit to ensure effective financial management and profitability. From this background, this business case assesses the

influence of proper credit management on fast-moving consumer goods profitability in Ghana using Fareast Mercantile Company Ltd.

1.4 Project Objectives

The main aim of this project is to assess the influence of proper credit management on fast-moving consumer goods profitability in Ghana using c Mercantile Company Ltd as a case study. Specifically, the case study seeks to:

1. Determine the factors that influence access to credit in Fareast.
2. Assess credit management practices of Fareast.
3. Assess the effect of credit management on profitability in Fareast.
4. Examine the obstacles to the effective credit management in Fareast.

1.5 Project Significance

The business case is relevant due to the aims it sought to achieve. The findings of the provide managers of Fareast a better understanding of the substantial trade-off selling on credit to boost sales revenue and managing credit to ensure effective financial management. Management of Fareast need to need to recognize and understand this trade-off and implement continuous process improvement strategies that take them into account.

The findings of this business case also expected to serve as a guide for policy makers and administrators of the company's finances in the formulation of policies concerning credit management. The business case is also expected to emphasize the need for managers to establish a workable inter-firm control patterns which create value for the firm and its partners.

It is also expected that the business case would serve as a point of reference for future research. Hence, students and other scholars who may conduct future research on topics related to the study area can refer to the study's findings in their literature review.

2. Literature Review

2.1 Liquidity theory of credit

Emery is credited with suggesting this theory first in 1984 with the proposition that credit rationed businesses employ more trade credit than those who have access to normal financial institutions. The key point in the liquidity theory of credit is that when businesses have financial constrained, the proposal of trade credit makes up for the decrease of credit offer from financial institutions. In line with this ideology, businesses showing good liquidity or who have

greater access to capital markets can fund those with limited access to finance. Following this proposition, some researchers have tried to collect empirical evidence to support this theory. For instance, Nielsen (2002) used small businesses as a proxy for credit rationed entities, and found that when there is a monetary shrinkage, small businesses react by growing the amount of trade credits they receive. As businesses who do not have financial constraints are less probable to demand trade credits and are more inclined to give it, a negative correlation between a buyer's access to other sources of funding and trade credit use is expected. Petersen and Rajan (1997) obtained evidence supporting this negative relation.

2.2 Definitions, Types and Functions of Credit

Credit, in commerce and finance, is a term used to denote transactions involving the transfer of money or other property on promise of repayment, usually at a fixed future date. The transferor thereby becomes a creditor, and the transferee, a debtor; hence credit and debt are simply terms describing the same operation viewed from opposite standpoints (Hazarika & Guha-Khasnobis, 2008). The principal classes of credit are as follows (Hazarika & Guha-Khasnobis, 2008):

1. Mercantile or commercial credit, which merchants extend to one another to finance production and distribution of goods;
2. Investment credit, used by business firms to finance the acquisition of plant and equipment and represented by corporate bonds, long-term notes, and other proofs of indebtedness;
3. Bank credit, consisting of deposits, loans, and discounts of depository institutions;
4. Consumer or personal credit, which comprises advances made to individuals to enable them to meet expenses or to purchase, on a deferred-payment basis, goods or service for personal consumption;
5. Real-estate credit, composed of loans secured by land and buildings;
6. Public or government credit, represented by the bond issues of national, state, and municipal governments; and
7. International credit, which is extended to particular governments by other governments, by the nationals of foreign countries, or by international banking institutions, such as the International Bank for Reconstruction and Development.

The principal function of credit is to transfer property from those who own it to those who wish to use it (Tony & Watson, 2010).

2.3 Concept of Credit Management

Credit management is the process for controlling and

collecting payments from your customers (Small business, 2011). It is a term used to identify accounting functions usually conducted under the umbrella of accounts receivables (Wise-Seek, 2010). 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 (Tony & Watson, 2010). 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 (Fletschner, 2009). As part of the evaluation process, credit management also calls for determining the total credit line that will be extended to a given customer.

According to Jabatan (2001) 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. These factors include:

1. Gathering data on the potential customer's current financial condition, including the current credit score.
2. The current ratio between income and outstanding financial obligations will also be taken into consideration.
3. 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.

A good credit management system helps to reduce the amount of capital tied up with debtors (people who owe money) and minimize the exposure to bad debts. Good credit management is vital to your cash flow (Tony & Watson, 2010).

After establishing the credit limit for a customer, credit management focuses on providing the client with accurate and timely statements or invoices (Fletschner, 2009). The invoices must be delivered to the customer in a reasonable amount of time before the due date, thus providing the customer with a reasonable period to comply with the purchase terms (Jabatan, 2001).

When the process of credit management functions efficiently, everyone involved benefits from the effort. The vendor has a reasonable amount of assurance that invoices issued to a client will be paid within terms, or that regular minimum payments will be received on credit account balances (Tony & Watson, 2010).

Customers have the opportunity to build a strong rapport with the vendor and thus create a solid credit (Fletschner, 2009).

2.3.1 Account receivables management

Selling on credit has become a necessity in conducting business today (Atrill, 2006). However, offering credit has a cost, which is, the value of the interest charged on an overdraft or other short-term loan to fund the period of credit, or the interest lost on the cash not received and deposited in the bank (Watson & Head, 2010). In addition to the aforementioned costs, Atrill (2006) adds administration costs and bad debts. An increase profit from extra sales resulting from offering credit could offset this cost. Atrill (2006) argues that these costs must be weighed against the benefits of increased sales resulting from the opportunity for customers to delay payment.

Watson and Head (2010) also add that longer credit terms may increase turnover, but will also increase the risk of bad debts therefore the cost of increased bad debts and the cost of any additional working capital required should be less than the increased profits generated by the higher turnover.

A common goal of accounts receivable management is to ensure debts are collected within specified credit terms (Pike & Cheng, 2001). Another common goal is the identification of delinquent accounts to reduce the total credit which is written off as bad debt (Peacock, Martin, Burrow, Petty & Koewn, 2003). These two goals normally go hand-in-hand, as early identification of delinquent customers reduce the size and age of accounts receivable and also the probability of accounts defaulting (Peacock et al, 2003).

Joshi (2000) claimed that by investing in trade receivables, firms seek to increase profitability by expanding revenue to attract new customers and keep old customers. This helps to increase sales and profit thereby helping to carve a market niche and hence gives the firm a competitive advantage.

According to Watson and Head (2010, p. 86) a firm's credit management policy should help it maximize expected profits. This requires a firm to know its current and desired cash position and its ability to meet the increase in demand. For effective credit management, the employees of the firm need training or recruitment of new staff (Jackling, Raar, Wigg, Williams & Wines, 2004). In determining an optimal credit extension policy, Watson and Head (2010) assert that a firm needs to set up a credit analysis system.

The credit analysis system which is the credit standard involves the decision as to which customers constitute a 'good' and 'bad' credit risk (Jackling et al, 2004). A credit business faces the risk of bad debts

and therefore care must be taken who to give credit to (Atrill, 2006). Atrill further provides a five Cs of credit as a useful checklist for businesses when considering a proposal from a customer for the supply of goods or services on credit; capital, capacity, collateral, conditions and character.

According to Atrill (2006) relevant information can be obtained from a variety of sources to assess the creditworthiness of a customer before credit is granted. The following are some of the possible sources; trade references, bank references, credit agencies, and a visit to the customer's place of business (Jackling et al, 2004). This requires firms assess the credit worthiness of their customers (Atrill, 2006).

2.3.2 Credit management and debt recovery strategies

It is inevitable that any business owner, big or small, is going to encounter clients that are just not willing to pay (Small Business, 2012). It is no surprise that many small businesses do not survive the first two years, and the inability to collect from nonpaying clients are likely a large contributor of this failure (Robert, 2007). Debt collection is an endless challenge that must be tackled with care (Small Business, 2012). Organizations need to devise strategies towards effective credit management and recover their debts.

Monitoring of credit facilities granted to customers is a significant function in ensuring the success of a project, debt or facility for which repayment is made. Marfo-Yiadom and Agyei (2010) revealed that effective monitoring leads to higher recovery of debts by exposing possible dangers (like business diversions) and reminding borrowers of their obligations to the creditor.

Monitoring of credit facilities has been concentrated typically on ensuring repayment when there are signs of defaults for the payment (Robert, 2007). Such practice, in the view of the researchers, fails to achieve desirable credit repayments since the facility might have already gone bad (Wise-Seek, 2010). Researchers believe that monitoring of credits should be total by following events right from the dispatch of goods in the case of credit sale of goods, ascertaining the location of the storage or sale of goods, following up and reviewing the status of goods, identifying shortcomings for possible advice through field visits and discussions, ensuring prompt repayment of proceeds from the sale of goods, and advising on further expansion or re-direction of the business among others (Wise-Seek, 2010). Armed-chair monitoring invariably becomes a factor for non-repayment of credit facilities.

The granting of credit facilities is underpinned by the risk of being repaid when due. Yasuyuki, and Robert, (2008) indicated that risk identification is the

process by which a business systematically and continuously identifies property, liability, and personnel exposures as soon as or before they emerge. The first step in business risk management in their view is to identify the various types of potential losses confronting the firm, and secondly, to measure these potential losses with respect to such matters as their likelihood of occurrence and their probable severity (Yasuyuki & Robert, 2008).

It is therefore pertinent to assess the inherent risk of a credit facility, the existing operational management to mitigating the risk and determining the underlying actual risk (Robert, 2007). This assessment gives the idea of intended quality of the credit facility. The unlikelihood that there will be a loss arising from default at repayment of a credit facility granted is referred to as credit or default risk (Jackling et al, 2004). The primary danger in granting credit is the chance that the borrower will not repay at the agreed date. This therefore calls for critical assessment of any credit request with reasonable assurance that repayment would not be of much problem. A bank further covers the uncertainty of the repayment by demanding collateral (Jackling et al, 2004).

A lack of continued contact is a common mistake in accounts receivable recovery. While initial contact brings the debt to the attention of the delinquent client, without continuous, friendly reminders, you lose the benefit of the first courtesy call (Jackling et al, 2004). Frequent contact is the key to assuring successful accounts receivable recovery efforts. At the same time, all contact should be hospitable (Jackling et al, 2004). When keeping in touch with delinquent debtors, you want to remain on good terms, which require a careful, gentle approach (Yasuyuki & Robert, 2008). You will find that, if you are speaking to the client as often as every three days, having a good attitude will assist in more success at accounts receivable recovery (Wise-Seek, 2010). Even once the debtor makes a commitment to pay, continued contact and follow-up is necessary to assure the payment is actually recovered. Many clients will make such promises in an effort to stop collection calls, while others become so overwhelmed with paying several debts that one can slip through the cracks unless the business' debt recovery agent follows up as a reminder (Atrill, 2006).

2.3.3 Addressing risk associated with credit management

Credit risk has the repercussion of liquidity risk, which in the extreme instance can lead a business to severe financial crisis, resulting in erosion of capital, insolvency and could ruin the business (Atrill, 2006).

To identify and address risk associated with credit management, Atrill (2006) outlined the following measures:

1. Establishing an appropriate credit risk environment;
2. Operating under a sound credit granting process;
3. Maintaining an appropriate credit administration, measurement and monitoring process;
4. Ensuring adequate controls over credit risk; and
5. The role of supervisors.

Establish an appropriate credit risk environment

The Board of Directors of a business should have responsibility for approving and periodically (at least annually) review the credit risk strategy and significant credit risk policies of the organization. The strategy should reflect the organization's tolerance for risk and level of profitability the business expects for incurring various credit risks (Atrill, 2006). Senior Management should have responsibility for implementing the credit risk strategy approved by the Board of Directors and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk (Yasuyuki & Robert, 2008). Such policies and procedures should address credit risk in all of the organization's activities and at both the individual credit and portfolio levels (Atrill, 2006).

A business must operate within sound, well-defined credit granting criteria. These criteria should include a clear indication of the business' largest market and a thorough undertaking of the borrower or counterparty, as well as purpose and structure of the credit, and its source of payment (Marfo-Yiadom & Agyei, 2010). Businesses should establish overall credit limits at the level of individual debtors. Businesses should have a clearly established process in place for approving new credit as well as the amendment, renewal of existing credits.

All extension of credit must be made on an arm-length basis. In particular, credit to related companies and individuals must be authorised on an exceptional basis, monitored with particular care and other appropriate steps taken to control or mitigate the risk of non-arm's length transactions (Marfo-Yiadom & Agyei, 2010).

According to Joshi (2000), this process entails the following: businesses should have in place a system for the on-going administration of their various credit risk bearing portfolios and a system for monitoring conditions of inadequate credits, including determining the adequacy of provisions for bad debts. Businesses are encouraged to develop and utilise an internal risk rating system in managing credit. The rating system should be consistent with the nature, size and complexity of a business' activities (Peacock et al, 2003).

Businesses must have information system and analytical techniques that enable management to measure the credit risk inherent in all on-and-off

balance sheet activities (Joshi, 2000). The management information should provide adequate information on the composition of the credit portfolio, including identification of any concentration of risk (Joshi, 2000);

Gill (2010) stated that businesses must establish a system of independent, on-going assessment of their credit risk management process and the results of such reviews should be communicated directly to the board of directors and senior management.

Businesses must ensure that the credit granting function being properly managed and the credit exposures are within levels consistent with internal limits; and must further have a system in place for early remedial action on deteriorating credit, managing problem and similar workout situations (Joshi, 2000).

On the role of supervisors, Atrill (2006) advised that supervisors should require that businesses have an effective system in place to identify measure, monitor and control credit risk as part of an overall approach to credit management. Joshi (2000) also stressed that supervisors should conduct an independent evaluation of a business' strategies, policies, procedures and practices related to the granting of the credit and the ongoing management of the credit portfolio. In addition, supervisors should consider setting limits to restrict the business' exposures to single debtors or groups of connected counter-parties (Atrill, 2006).

The board of directors should approve and periodically review credit risk strategy whilst senior management should ensure its effective implementation. A sound credit management process provides the basis for assessing the credit worthiness of beneficiaries and creates facilities to be followed through (Atrill, 2006).

Gill (2010) has asserted that credit policy can be defined by the credit period, credit standards, the firm's policy on debt collection and any incentives awarded to customers for early payments in any firm. It can also be described as a practice and regulation that is implemented by firms to control the level and duration of credit sales (Chandra, 2008). It ensures that a firm has a high-quality portfolio of accounts receivables while selling to only clients with prudent risk.

It stipulates the type of customers who qualify for credit sales, exact credit limit, credit period allowed, procedures of dealing with delinquent accounts and ways of recovering bad debts (Fletschner, 2009). It aims to maximize credit sales at the lowest risk possible. It also includes various ways of mitigating risks such as bank and cash guarantee, listing in the credit reference bureau and procedure of accepting personal or bankers' cheques (Gill, 2010).

There are normally two types of credit policy. An

expansive credit policy aims at issuing credit to as many customers as possible without assessing their level of risk (Chandra, 2008). This results to increased sales but at the same time increase in customer default and bad debts (Chandra, 2008). On the other hand a tight credit policy ensures that only credits worthy customers are issued credit sales (Chandra, 2008). This leads to a minimal increase in sales but also reduced bad debts, high liquidity and low cost of trade debtor management which leads to increased profitability in the long term (Chandra, 2008). A credit policy is the tool that management institutes to control the level of trade receivables.

2.4 Empirical Literature

There has been a considerable amount of research on credit management across the globe. In the United Kingdom, the Bolton Committee (1971) had critiqued many aspects of the financial management of small and medium enterprises, and reported that information was frequently so poor that generally management of these businesses only learnt of a looming crisis only when the annual accounts surfaced, or following an urgent call from the bank manager. Consequently, the Chartered Institute of Management Accountants, UK (CIMA, 1994) found in their study that 20 per cent of businesses (majority of which were small enterprises) that collapsed did so due to bad debts or poor credit management.

Another study in the United Kingdom was conducted by Wilson (1996) who assessed the credit management practices in firms, and found a strong relation between good credit management practices and aspects of business performance. Author reported businesses which had late payment challenges generally relied on short-term funding and were normally poorer in terms of credit management practices.

In Greece, Lazardidis and Tryfonidis (2006) examined the connection between profitability and credit management in the Stock Exchange Market of Athens between 2001-2004. The researchers sought to ascertain the correlation between firm profitability and the cycle of cash transformation and its components. The study's results showed that a significant relationship exist between cash transformation cycle and gross operational. Furthermore, firm managers can generate a good profit for their businesses by using the right management techniques for the credit management cycle and its components.

Nazir and Afza (2009) also assessed the relationship between working management policies and profitability in 208 companies listed in Tehran Stock Exchange over a seven-year period between 1998-2005. The results of the study indicated that managers

who employed conservative strategies were able to grow the value of the stocks of their businesses. The results showed that investors in their investment decisions often selected firms which applied short term credit policies and retain a low level of current liabilities when choosing.

Nobani, Abdollatif and Alhajjar (2010) also conducted research into the relationship that exist between the cash transformation cycle and profitability using data collected 1990 to 2004 from Japanese companies. The study’s results showed that a negative relationship existed between credit management and cash transformation cycle and profitability.

In Africa, Waweru (2011) undertook a study on the correlation between trade receivables management and the value of firms listed on the Nairobi Stock Exchange (NSE). The study included 22 companies and collected secondary data from the NSE handbook and the companies’ audited annual financial reports for a seven-year period 2003-2009. The results of the study indicated that there was some relationship between the companies’ value and trade receivables management. The study pointed out that firms which had and complied with credit policy that resulted in minimal accounts receivables had the highest profitability.

Kotut (2013) also studied receivable management practices employed by firms in Kenyan and found that a strong significant relationship between the measures of receivable management and corporate liquidity. The author found that sound receivables management practices had a positive influenced on firm liquidity.

In Ghana, Kwame (2010) conducted a study on receivable management practices of SMEs in Ashanti Region. The study found that business managers can increase liquidity by minimizing the number of days accounts receivables are recovered. This finding was particularly important for both small and large enterprises who needed to finance growing amounts of debtors.

2.5 Conceptual Framework

The conceptual framework of this study provides a quick visualization of the proposed relationship between the studies variables at a glance. Figure 2.1 shows the relationship between the independent variables and the dependent variable in this research.

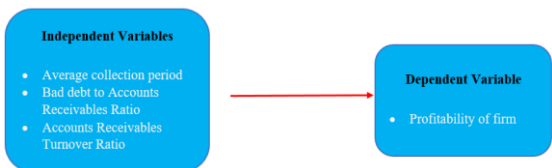


Figure 2.1: Conceptual framework of study
Source: Researcher’s construct (2024)

2.6.1 Study variables

Average Collection Period (ACP) also referred to as the Daily Sale Outstanding (DSO) represents the average or mean number of days that accounts receivable remain outstanding. ACP is often used by businesses for trend analysis to compare the collections period over time. Businesses can use it to compare with targets set or to compare with industry average.

Bad debt to Accounts Receivables ratio expresses the percentage of Accounts Receivables that that is uncollectible and thus written off to bad debt. A higher ratio indicates a greater risk that credit sales to customers will likely not be collected and vice versa.

Accounts Receivable Turnover (ART) can be defined as the number of times per year that a business collects its average credit sales or trade debts. This ratio assesses a business’ ability to efficiently collect amounts from its trade debtors when they fall due as well as how well it grants credit to its customers. ART also assist businesses to keep track of their turnover, a reduction may indicate a fall in sales and increase may mean more efforts are required to collect amounts from customers.

Profitability of the firm simply implies the extent to which the firm’s total income exceeds its total expenses for a period in question. In this study profitability of the firm will be assessed using the return on assets. Return on assets is a ratio that measures a firm’s profitability in relation to its total assets.

2.6 Summary

From the above literature review, it can be seen that some empirical studies exist on credit management and profitability of firms across the globe. A number of these studies have been conducted outside the Ghanaian jurisdiction. Again, the reviewed literature has not clearly pointed out the relationship between credit management and profitability in the fast-moving consumer goods industry. Furthermore, studies conducted on the topic has yielded mixed results. Whereas some indicated a positive relationship, others indicate a negative relationship, whereas others indicated no relationship at all. This study seeks to fill these gaps in literature by studying the influence of credit management on fast-moving consumer goods profitability in Ghana.

3. Methodology

3.1 Methods

The study is descriptive in nature as it sought to undertake a deeper analysis of the problem being studied. The mixed research method was employed in

this study. The mixed method combines both qualitative and quantitative methods to undertake a study. Qualitative research method largely seeks to obtain an in-depth description of phenomenon and situations and obtain reasons behind such events and circumstances (Saunders, Lewis, & Thornhill, 2009). Quantitative methods use statistical and or numerical analysis of data collected through questionnaire, or survey or secondary (Creswell, 2003). Whereas qualitative research is subjective and often involves expression of opinions of respondents, quantitative research is objective and often involves the use of data in numerical form like statistics or percentages. This study combined the qualitative and quantitative methods to elicit in-depth data on the credit management practices in Fareast Mercantile Ltd and apply existing secondary data to assess the impact of credit management on profitability in the company.

3.2 Materials/Data

Wilson (2010) has asserted that in social sciences research, two main types of data exist for usage thus, primary, and secondary. Primary data refers to data which is obtained directly from source for use in undertaking the research. Secondary data on the other hand connotes data which has been collected by other people and are available for use. In this study, both primary and secondary data was used. Primary data was collected from respondents using a semi-structured interview guide. The interview guide focused mainly on obtaining data on the existing credit management practices in the company. Secondary data was obtained existing financial statements of Fareast Mercantile Ltd. Other secondary data mainly used in the literature review were obtained from scholarly works and published journals, articles, internet, and published books.

3.2.1 Instrument

Primary data used in this research was collected using a semi-structured interview guide. The interview guide had two main sections. The section sought to obtain demographic data on the respondents included in the study. Face-to-face interviews were conducted for key personnel in the finance department of the company. These included the credit manager, finance manager, credit officers, and accounts receivables officers. The interviews were structured to allow for follow up questions which helped to elicit vital information from the respondents.

3.3 Analytical Tools

The data obtained in this study were analysed after they have all been gathered and sorted. According to Creswell (2013), the type of data collected in a study

informs the data analysis tool used for the analysis; whether it is data qualitative or quantitative. According to Wilson (2010), quantitative data is analysed using frequency tables and or statistical software packages. Hence quantitative data in this study was analysed using Statistical Package for Social Sciences (version 20.0). Data from the interview guides were analysed using content analysis as they had varied responses and were largely unstructured (Wilson, 2010).

3.4 Ethical Issues Addressed

In carry out this research, some key ethical steps were taken. The researchers first sought permission from the management Fareast Mercantile Ltd before starting the data collection study. Management was informed officially of the research, the purpose of the data collection, the usage and confidentiality steps to be taken. This helped in obtaining management consent easily enhancing the data collection process. In addition, all the respondents included in the study were informed that the study was purely for academic purposes and did not require any personal data. In addition, respondents were assured that their individual responses were not going to be shared with anybody but would be kept anonymous and confidential. Moreover, the respondents were also informed at any point in time, they could opt out of the study.

3.5 Summary

This chapter has detailed the procedures which used to collect and analyse the data used in the study. The key sub-headings captured this chapter include the methods, materials/data, analytical tools, and ethical issues addressed in the study. The study is descriptive in nature and adopted a mixed method and collected qualitative primary data using interview guide. Secondary data which were obtained from financial statements of Fareast Mercantile was also used in this study. The chapter has also shown both statistical and content analysis tools were used in the study to analyse the secondary and primary data respectively. Ethical issues which were addressed in this study are also detailed in the chapter. The next chapter presents the results and discussion of the study's data.

4. Results And Discussion

4.1 Discussion of Results

4.1.1 Demographic description of respondents

The respondents in the study included the finance manager, head of sales, credit manager, accounts receivables officers (2), and credit officers (3). On

how long the respondents had worked in their position, all the respondents had worked in their respective positions for more than three years. The credit manager and the finance manager had worked in their position for more than five years. The results indicated that all the respondents had worked in their respective positions for quite some time and as such could respond to the issues in the study. The responses also indicated that two of the respondents had higher national diploma, three had a bachelor's degree, one two a master's degree and one had professional qualification as their highest level of education. The results showed that all the respondents had tertiary level of education and as such could understand the issues being studied.

4.1.2 Factors that influence access to credit in Fareast.

The study sought to ascertain factors that influence access to credit in Fareast. In this regard, customers the respondents were asked to provide the factors that influence customers' access to credit sales in the organization. From the responses it came up that one of the main factors which influence access to credit sales in the organization is the number of years the customer has been dealing with Fareast. "For traditional wholesale customers, the business has to buy on cash for three times preterm cash bases" remarked a respondent. "However, modern-trade customers do not need to buy from us over on cash basis before onboarding". "The shop should be a standard outlet owned by a reputable business and operating in a mall or an area with high sales potential" continued the respondent. "A customer should have adequate cashflows and must have stringent measures in place for sales, collection, and banking," said another respondent. "We also look at the audited financial statements of the client to assess the sales trend over the period," said another respondent. "Bank guarantees and collateral is also a requirement above a certain threshold of credit limit requested," said another respondent.

4.1.3 Credit management practices of Fareast

The researchers also sought to ascertain the credit management practices of Fareast. It was found from the responses that in Fareast, each customer is profiled, and information is gathered to assess the customer's level of risk, and credit period of the customer is determined to align with its activities. "We also determine the credit limit of the customer based on the information gathered" remarked a respondent. The responses also indicated that each credit customer is assigned a sales representative, and an area sales manager. "The first point of contact for ensuring the customer pays on time is the sales representative" spoke a respondent. "Where the customer fails to pay on time, credit control officers

assist the sales representatives to collect the debts which failure is escalated to the area sales manager", mentioned a respondent. "If a customer delays in paying the debt the first time, a caution is raised, on the second time, another caution is given, and the third time, the credit limit of the customer is withdrawn. If this does not cause a change, the customer is delisted from credit customers' list is made a cash sales customer", said a respondent.

4.1.4 Effect of credit management on profitability in Fareast

The study also sought to assess the effect of credit management on the profitability of Fareast. In this regard, information obtained from the financial statements of Fareast were used taking in into consideration variables such as average payment period (in days), cash conversion period, average collection period, debt ratio, inventory turnover period (in days), current ratio, financial assets to total assets and return on equity. The standard deviation, mean, and minimum and maximum values were determined as shown in Table 4.1 below:

Table 4.1: Descriptive statistics of study variables

Variables	Mean	Std dev.	Minimum	Maximum
Inventory turnover period	29.02	28.001	0.001	112.78
Average payment period	107.28	97.190	8.051	595.287
Cash conversion period	28.45	76.938	390.556	190.206
Debt ratio	0.538	0.588	0.091	6.622
Average collection period	39.4	0.396	0.039	4.843
Current ratio	1.692	1.447	0.138	12.058
Natural log of sales	0.558	0.447	0.319	0.2425
Financial assets to total assets	0.110	0.102	-0.351	0.433
Return on equity	0.244	0.292	-1.426	2.152

Source: Field data (2024)

Table 4.1 shows the descriptive statistics of the variables used in the study. The table shows the mean, dispersion and variability in the data obtained. The results indicate that average payment period and

inventory turnover period average 107 and 29 days respectively, whereas cash conversion period averaged 28 days, average collection period is 39 days, with debt ratio being 0.538, current ratio 1.692, financial assets to total assets ratio being 0.11, and return on equity being 0.244.

4.1.3.1 Correlation analysis

To determine the relationship between the credit management and profitability in the company, the study measured the degree of correlation between the various of the study. Table 4.1 presents the results of the correlation between the variables used in this study.

Table 4.2: Correlation analysis of variables

Variable	Cor with Return on Equity	P-value
Inventory turnover period	-0.286**	0.00
Average payment period (in Days)	-0.203**	0.00
Cash conversion period	-0.279**	0.00
Debt ratio	-0.170*	0.00
Average collection period	-0.001	0.00
Current ratio	0.574	0.00
Natural log of sales	0.040	0.00
Financial assets to total assets	0.160	0.00

Source: Field data (2024)

The results in Table 4.2 shows the correlation in the variables. The results indicate that current ratio has a positive significant effect on profitability (as measured by return on equity) with a correlation of 0.574, and inventory turnover has a significant but negative correlation with return on equity (-0.286). Average collection period also had a negative and significant relationship with return on equity (-0.001). The results also showed that return on equity had a significant but negative relationship with two key variables in the study that is, average payment period, and cash conversion period with values of -0.203 and -0.279 respectively.

4.1.3.2 Regression analysis

To determine the effect of credit management on profitability, multivariate regression analysis was used measure how the various variables impact return on equity as shown in Table 4.3 and 4.4 below.

Table 4.3: Regression coefficients

Unstandardized Coefficients			Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
Constant		11.130	0.331	2.310	0.022
Inventory turnover period	0.230	0.64	0.002	1.531	0.080
Average payment period	0.320	0.331	0.075	1.255	0.021
Cash conversion period	0.551	0.271	0.062	1.597	0.052
Debt ratio	0.732	0.280	0.023	2.142	0.012
Average collection period	0.631	0.261	0.031	1.410	0.031
Current ratio	0.610	0.270	0.021	1.221	0.021
Natural log of sales	0.541	0.237	0.022	0.301	0.041
Financial assets to total assets	0.611	0.222	0.030	0.410	0.060

Source: Field data (2024)

Table 4.3 shows the standardized and unstandardized coefficients of relationships between the various variables and return on equity. The standardized beta coefficients provide a measure of each variable's contribution to the study's model. A large value shows that a unit change in an independent variable has a high effect on the dependent variable. The t and Sig (p) values in the Table provides a rough signal of the effect of each independent variable. A big absolute t value combined with a small p value indicates that an independent variable has a big effect on the dependent variable.

Table 4.4: Effect of credit management on profitability

Credit management	Profitability
Pearson Correlation	0.780
Sig. (2-tailed)	0.000
N	5

Source: Field data (2024)

The results in Table 4.4 shows a Pearson coefficient of 0.780 and p-value of 0.000 which shows a strong positive and significant relationship between credit management and firm profitability in Fareast. This therefore indicate that when the management of Fareast improve their management of customers' credits, the profitability of the business will increase.

4.1.5 Obstacles to the effective credit management in Fareast

The study also sought to examine the obstacles to

effective credit management in Fareast. The results indicated that one of the key obstacles to effective credit management in Fareast is ineffective implementation of credit payment period. The results of the data indicated though the company has credit periods for all customers, this was not applied faithfully particularly for customers who have been doing business with the company for a very long time. "In certain cases, customers who have credit period of forty-five days, have their days extended to sixty without amending their official credit periods" remarked a respondent. "This situation often affects the business as it largely imports goods to sell in a very unstable exchange rate regime", continued the respondent.

The study also identified from the responses in Fareast there was insufficient credit analysis of the credit sales customers. Assessment of clients is very important in deciding on selling to them on credit. It assists in determining the credit-worthiness of the customers, and deciding the right amount of credit sales to extend to the client. However, the responses obtained showed that the business found it somewhat difficult to adequately assess customers due to insufficient data on customers. "One of the key challenges we face is inadequate data on clients particularly their ability to keep proper records to help in determining their credit-worthiness status" a respondent remarked.

It was also obtained from the responses that the credit limit set in the company often turned to be inappropriate for some of the customers. Even when these were appropriate, they were often times not strictly adhered to in deciding credit sales for clients. One of the respondents stated that "the credit limit in the organization turned to be inappropriate over time as economic conditions keep changing, as well as the cash flow management practices of the business". "For this reason, even credit-worthy customers sometimes turn to default without modification of their credit limits overtime in line with changing economic conditions" continued the respondent. Another respondent said that "sometimes managers often employ discretion in applying credit limits to credit sales which creates problems for the business". Without stringent application of the credit management policies, defaults can increase which can disrupt the cash flow management of the business.

4.2 Implications for Practice

The results of the study discussed above has some practical implications on the activities of Fareast Mercantile Ltd, and other fast-moving consumer goods businesses in the country. The results of the study have shown that credit management impacts

profitability positively in the business. In addition, the credit management emanate from the businesses own internal activities. For this reason, it is important for the management of the Fareast to streamline its credit appraisal procedures to ensure that prospective credit customers undergo effective appraisal processes before they are sold to on credit. This will ensure that credit sales are made to only credit-worthy customers and minimize incidences of their sales amounts becoming uncollectible. Furthermore, to ensure that customers pay their amounts on time, it is imperative for the company to continue to provide support to its clients and continue to visit them regularly.

The study has also shown that effective credit management can impact profitability in organizations. It is therefore essential for Fareast and other fast-moving consumer goods companies to ensure that they set appropriate credit limits and credit days for each customer based on the customer's own circumstances and the level of risks associated with them. Appropriate credit limits minimize the likelihood of providing than enough credit sales to a customer. In addition, appropriate credit days will ensure that the company's credit sales amounts are collected in time to enhance cash flow management and safeguard that suppliers are paid on time.

The study's results have further identified that frequent contact with credit sales customers is very important in credit management. Hence, to minimize defaults from credit customers, it important for Fareast to maintain frequent contact with credit sales customers to ensure that pay their debts on time. It is also important for the business to show interest in the activities of the customers and aid them in the form of trade support whenever possible. This will assist the business to identify quickly notice when customers are facing challenges in their trading activities and provide support if possible.

Finally, the study has identified that the factors that influence access to credit sales are very important in credit management. These factors set the tone for customers' access to sales and credit and as such the foundation for proper credit management. Hence, it is important for the management of Fareast Mercantile to put in place adequate measures to ensure that the factors that allow customers to have access to credit sales are streamlined and made stringent to curtail incidences of bad debts in the business which create cash flow challenges.

4.3 Summary

This chapter has brought forth the results and discussion of the study. The two key sub-headings in this chapter included the discussion of results, and the implications for practice. The results have provided

details of the factors that influence access to credit sales in Fareast Mercantile Company. The section has also detailed the credit management practices of Fareast. The chapter has also shown that credit management impacts profitability in the company. The obstacles to effective credit management in the business has also been discussed in the chapter. The next chapter presents the conclusion and recommendations of the study.

5. Conclusion

5.1 Summary

The study assessed credit management and performance Fareast Mercantile Company Ltd. Seven respondents were included in the study who were interviewed on the issues in the study. In addition, secondary data was obtained from the financials of the company for the statistical analysis. The study revealed that traditional wholesale customers are required to buy from the business over a period of two years to qualify for sales on credit. The business in question needs to provide audited financial statements to assess the sales trend over the period.

The study also showed that each credit customer is profiled, and information is gathered to assess the customer's level of risk, and credit period of the customer is determined to align with its activities. In addition, a potential credit customer assigned to a sales representative, and an area sales manager. The responses indicated that where the customer fails to pay on time, credit control officers assist the sales representatives to collect the debts which failure is escalated to the area sales manager. The results also showed that If a customer delays in paying the debt the first time, a caution is raised, on the second time, another caution is given, and the third time, the credit limit of the customer is withdrawn.

5.2 Conclusion

From the summary of the findings as outlined above, some conclusions can be drawn on the objectives of the study. The first objective of the study sought to assess the factors that influence access to credit in Fareast. The study concludes that the factors that influence access to credit in Fareast included financial capacity, a business' credit risk level, sales trend, and longevity in doing business with the Company.

The second objective of the study sought to assess credit management practices of Fareast. This study concludes that the credit management practices in Fareast includes; contacting the customer, doing follow ups, withdrawal of credit limit, writing letters.

The third objective of the study sought to assess the effect of credit management on profitability in

Fareast. The study concludes that credit management has a positive effect profitability in Fareast.

The fourth objective of the study sought to examine the obstacles to the effective credit management in Fareast. This study concludes that the obstacles to effective credit management in Fareast included; inadequate data on clients particularly their ability to keep proper records to help in determining their credit-worthiness status; exercise of discretion by managers in applying credit limits to credit sales which creates problems for the business; and inappropriateness of credit limit over time.

5.3 Recommendations

From the summary and conclusions of the study provided above, the following recommendations are provided:

1. It is suggested that Fareast Mercantile should organize periodic training workshops for its sales and credit control staff proper credit management practices. This will assist staff to be abreast with current credit management practices to reduce defaults.

2. It is also suggested that top management in the company should make it mandatory for all staff of the company including sales supervisors and area managers to comply with credit policy in terms of limits and credit periods to eliminate the use of discretion.

3. It is further suggested that the management of Fareast should implement more stringent measures against defaulting customers such as legal suits in addition of their deletion of their names. This will deter other customers from deliberately delaying in paying their debts.

5.3.1 Recommendations for further research

In light of the limitations of the study, it is recommended that further research should be carried out using more than one fast-moving consumer goods company. This will increase the sample size and possible show different results.

5.4 Limitations

In the undertaking this study, there were a few constraints which could have influenced the results of the study and the conclusions. A key constraint in this study was time. Due to the relatively short period of time within which the study had to be conducted, only one company was used in the study. This obviously imposed some constraints on the study's results and their generalizations

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