CREDIT POLICY AND FINANCIAL PERFORMANCE OF LOGISTICS FIRMS

IN UGANDA

ACASE OF INTEFREIGHT UGANDA LTD

BY

LYDIA KABANDA

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DECLARATION

I, Lydia Kabanda hereby declare that this dissertation is my original work and has never been submitted for any academic award or publication in any institution or University. Due acknowledgement has been made for the work of others in this report, through quotation and references.

Signed _____________

Lydia Kabanda Lukyamuzi (Mrs)

Date________________

APPROVAL

This dissertation has been submitted for external examination under our approval as supervisors

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Mr. Kiiza Kenneth Alfred

Date: ____________________

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Mr. Ivan Twinomuhwezi

Date: ____________________

DEDICATION

This work is dedicated to My Parents Mr. & Mrs. Kabanda Ssimbwa Stephen, My Husband Mr. Michael Lukyamuzi and My Daughter Malaika Roselyn Alexandra Lukyamuzi.

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I would like to express my thanks and gratitude to various people who contributed to the completion of this work. It is not possible to name all those who supported me but I am greatly indebted to everyone. I wish to express my sincere gratitude to my supervisors Mr. Kiiza Alfred and Mr. Ivan Twinomuhwezi for their support, guidance and constructive criticism plus their untold commitment to supervise this research.

I extend special thanks to the management and staff of Interfreight Uganda for accepting to respond to this study with commitment.

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LIST OF ABBREVIATIONS

CVI	:	Content Validity Index
IF	:	INTERFREIGHT
SPSS	:	Statistical Package for Social Sciences
TOC	:	Theory of Constraints.

ABSTRACT

The general purpose of the study was to establish the relationship between credit policy and financial performance of firms in the logistics industry in Uganda with particular reference to Interfreight Uganda Limited. Specifically the study examined the relationship between credit standards, credit terms, credit monitoring and financial performance of Interfreight Uganda. The study used a cross sectional descriptive study combined with a case study design using qualitative and quantitative approaches on population of 140 at Intefreight. Data was collected using questionnaire and interview guide and was analysed using SPSS in which descriptive statistics of mean and standard deveiation, correlation analyses and regressions analysis were done. The study found a moderate positive and significant relationships between credit standards and financial performance of the logistics firm ($r = 0.327^{**}$, $p = 0.002$), credit terms and financial performance ($r = 0.456^{**}$, $p = 0.000$), credit monitoring and financial performance ($r = 0.470^{**}$, $p = 0.000$). The study concluded that compliance to credit standards, credit terms and credit monitoring as established in the company credit policy if adhered to contribute positively and significantly to the firm's financial performance by improving in the firm's cash flows, sustainability and revenue growth. The study strongly recommends that to enhance financial performance of the firm, the management of Interfreight should strengthen their credit monitoring by regularly making client visits, telephone calls and emails coupled with regularly reviewing its credit standards after an empirical analysis of the market conditions. This should be complemented with instituting of credit terms related to credit payment incentives and deterrents by negotiating the payment installment amounts, credit discounts, fines and penalties in the credit contracts/agreements with clients. Benchmarking with other firms on credit monitoring and recovery best practices is equally recommended in complement to management commitment and upgrading of the credit monitoring information system.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

World economies are reeling from the effects of an International credit crunch that has threatened the survival of businesses in these economies as we know them. Trading blocs such as the European Union risk disintegrating into pre union entities as certain member countries are struggling with huge national debt burdens. Ireland is already distressed financially, Greece threatens the existence of the European Union as we know it, and Spain is doing no better as well as Italy. (The Economist, 2012). All this makes economic power houses like Germany begin to procrastinate as whether to bail out these countries so as to protect the German banking sector that is adversely exposed as they hold significant segments of the debt of these distressed economies. This has led to a knock on effect on World business, Insolvency is now a feature of the business world with defaults on financial obligations stretching from Iceland to the United States of America, Asia, Africa and South America, a looming global recession. (The Economist, 2012). These issues are the major causes that threaten the profitability and sustainability of businesses worldwide. It is now a stark reality to world business leaders that prudent Liquidity management will be the only way to maintain and grow their businesses out of this recession. This has brought to the fore the need for credit policy frame works to drive the credit management process and coherent credit policies that are the tenets of sound credit management which set objectives, standards and parameters providing business managers, industry regulators and corporate governance players with a basis for evaluating credit management performance, (Mc Naughton, 1996).

This study examined the influence of Credit Policy on financial performance of firms in the logistics industry with particular reference to Interfreight Uganda Limited. This chapter presents the background to the study which depicts an overview of credit policy conceived as the independent variable and its effect on financial performance the dependent variable, statement of the problem, the purpose of the study, the objectives of the study, research questions, hypothesis, conceptual; framework, scope of the study, significance of the study and Operational Definition of terms and concepts.

1.2. Background to the study

The Background is based on four perspectives that is; historical perspective, theoretical perspective, conceptual perspective and contextual perspective.

1.2.1 Historical Background

Credit is an indispensable catalyst in financing the movement of commerce. Its roots date back in time and are as old as the concept of trade itself. As early as 1300 BC, the Babylonians were lending on the basis of getting a charge on security or collateral. Credit affects us all in differing degrees, to some it could be a mere caress or a tickle, to others it could be a brush, to some a graze and for others a crash or a collision (Puru, 2000).

The phenomenon has been proven to be an inevitable evil in the complexity of developing and imbalanced economies (World Bank report 1989, Hall D 2008).The global credit crunch cannot go without being mentioned in the history of world economic crisis. Suruma (2008) observed that Credit is the blood of an economy. According to the budget Speech (2009/2010) Uganda has a debt of over $4.0 Billion. Uganda’s external debt has grown up to an unsustainable level of $4.0 billion. (Budget speech, 2009/2010). Atuhaire (2003) observed that the national debt was driven by the creation of state public utilities which failed to pay their debts for goods and services supplied to them through recurrent and development expenditure. These utilities failed to collect on past and current receivables as their customers defaulted on their bills. This was a result of these entities' persistent credit operational inefficiencies. However, business and economic experts assert that poor credit policy and practices result into receivables being rendered irrecoverable, with customer relations being threatened. This results in an adverse performance of this asset portfolio and a threat to organizational survival (Pandey, 2002).

A study done by Bank of Uganda in 2008 on banks depicted that there was an increase in demand for credit in Uganda with the number of banks (69%) reporting that demand for credit by enterprises had increased over the last six months to December 2008 with loan stock to existing borrowers being rolled over. Similarly a survey undertaken by the Credit Management Research Center in 2008 noted in its findings that extending credit by non financial firms to their customers is wide spread in the United Kingdom.

Trade credit or accounts receivable is managed by Financial Managers of business concerns striking a balance between profitability as a result of an increase in sales due to an extension of credit sales and the risk of failing to collect on these accounts and the related costs. Trade credit has existed as a trade practice in differing degrees in different industries though less so in the retail trade. Extension of credit facilities has benefits such as higher sales and larger market share though it has risks of failure to collect on the due dates which drives business failures. This has forced Finance Managers to continuously design innovative credit policies that ensure improved financial performance through better managed credit policy.

In the United Kingdom for instance, more than 80% of daily business transactions are done on credit with the value of trade debtors on limited company balance sheets in 2006 being over Pound Sterling 53 billion and creditors were in excess Pound Sterling 59 billion. A survey by the Credit Management Research Center in the UK established that the proportion of trade debtors out of the total assets ranged from 14% to 43% within the years of 1997-2006, with small businesses citing slow moving receivables as a challenge, representing an increase to (57%) in 2007 from (36%) in 2004 (CMRC, 2008).

Hrischkesh (2002) notes that the decision to grant credit may either be a firms marketing strategy or a finance strategy but most often a tradeoff between the two, but it is still unknown when deliberate credit policy was introduced into the trading terms of the shipping industry though one can summarize that demand for credit was healthy for shipping services worldwide. In short order, shipping companies come to realize that the accounts receivables payment period is getting longer whereas the accounts payment period has remained the same, this negatively impacts on the cash operating cycle of the firm which requires that working capital must grow in line with sales to avoid liquidity problems and as such an overall credit policy should be in place which operationalizes the extension of trade credit.

Reference can be made about Simens (India), a large heavy engineering company that set up its credit policy in the nineties that stipulated why the company grants credit to dealers, this was mainly due to three reasons: (a) It is an industry norm in their sector to grant credit, (b) The accounts receivable payment period is lengthy, due to the specific peculiarities in their industry; and (c) The company wants its dealers to make 5% profits and credit is extended to enable them to achieve this goal. It's the responsibility of the Simens sales staff to collect debts if they are delayed with late payments attracting a 22% penalty. (Cited in Pandey, 2004)

This policy is to a greater extent similar to that employed by Interfreight Uganda as currently the credit policy introduced by the merger of SpedagIntefreight clearly outlines how credit is meant to be administered, the credit terms and period, credit eligibility for large corporate having regular import/ export volumes and repeat clients with the company who have consistent payment records.

1.2.2 Theoretical Background

Trade credit is an arrangement that allows firms to exchange goods and services without making an immediate payment. Although it is an old practice, it is not completely understood. Numerous theories like Tax Theory, Transaction Cost Theory as well as Liquidity Theory as advanced by Brick and Fung (1984), Schwartz (1974) and Emery (1984) respectively have been proposed to explain its existence and use, but none of them can provide a complete explanation of the topic. While some of the models are more consistent in the case of certain industries or categories of products, others work better in a financially constrained environment. This study will be underpinned by the Goldratt Theory of Constraints (TOC), advanced by Goldratt (1990). This theory asserts that every organization must be understood as a system with a goal, hence every action taken by any part of the system must be judged by its impact on that goal. This theory asserts that a system constraint and in this study taken to be credit policy is defined as anything that significantly prevents a system from improving its performance towards that goal. The theory of constraints asserts that every organizational system presents at least one constraint and the constraint may be physical such as a machine with limited capacity, a policy or a behavior constraint. In support of the Goldratt (1990) theory assumptions, Mabin and Balderstone (2003) noted that policy constraints often arise when the company environment changes while its policies remain unchanged yet policy constraints are usually under the control of the organization's management.

TOC, unlike many continuous improvement initiatives intends to reduce operational expenses which by its inherent nature would be limited (Larsson *et al*., 2008), it makes more sense to focus improvement efforts on increasing policy effectiveness (Boyd &Gupta, 2004). In using the TOC, this study noted that to achieve the desired financial performance, the management of Interfreight Uganda Limited will need to critically examine the credit policy system and its constraints and develop the necessary interventions to remove the credit system weaknesses. It is also important to evaluate the debtor's behavior constraining the financial performance of Interfreight Uganda Limited as suggested by the Goldratt (1990). This study therefore, comes in handy to test the TOC in relations to the credit system/policy and its impact on financial performance in a logistics company.

1.2.3 Conceptual background

Norton and Kaplan (1996) defined Financial Performance as a subjective measure of how well a firm can use its assets from its primary mode of business and generate revenue. They state that there are three stages that can be described as measures of financial performance, these are rapid growth, success and harvest, however some other common measures of financial performance are revenue growth, cost, profits margins, sustainability, cash flows and net operating income and these can be derived from the following financial statements however for the this study cash flow, sustainability and revenue growth were taken as financial performance indicators.

The income statement of a firm that can be used to show the growth and profitability of the company while the balance sheet indicates whether the business is a going concern and if it is sustainable. This is normally indicated in the provision for bad debts as well as cash flow statements that show liquidity position of the firm as result of sales and collection from debtors.

With an overview, Horne and Wachowicz, (2003) define financial management as that managerial activity of obtaining and effectively utilizing the funds necessary for efficient operation.

The Business Dictionary defines Credit Policy as clear written guidelines that set the terms and conditions for supplying goods on credit, The policy clearly sets out the customer qualification criteria, procedure for making collections and steps to be taken in case of customer delinquency. A good credit policy system will help the firm reduce the amount of capital that is tied up with debtors and minimize exposure to bad debts. The policy will lay down the credit standards process, the credit terms as well as the Credit monitoring policies.

Credit standards are the criteria employed to select who qualifies for credit and to what limits. These standards need to be robust or flexible and based on the demand for the firms' services, significantly relaxed if demand is low and ones' competitors are also using credit as a marketing and financial strategy, and constrained when demand picks up.   Credit standards are the criteria a firm follows in selecting customers for the purposes of extending credit. (Pandey,1999). Credit analysis is a process used to ascertain the risks associated with the extension of credit. There is need to analyze the credibility of a credit applicant in order to mitigate the risk in giving credit which you may never be able to collect. This is done by gathering information on the payment history of the applicant with the company or other firms to which credit approval techniques are carried out.

Most commercial sales are made on credit, Credit policies are perpetuated by virtue of the fact that most individual businesses find it hard to break patterns which other competitors intend to continue with. According to Mclaney,(2005)., in determining credit policy financial managers attempt to strike a balance between the costs and risks of granting credit and those associated with denying or restricting credit. Mclaney identifies the costs and risks of granting as:- (a) Lost interest- granting credit is equal to giving an interest free loan, trade debtors being unsecured renders them fairly risky loans. Interest lost is priced at a fairly high risk premium. (b) Loss of purchasing power eroded by inflationary pressures, they are denied the transaction motive for holding money-net present value. Trade credit has additional administrative and record keeping costs- additional manpower in credit control as managers, book keepers, debt collectors, as well as increased accounting and transaction costs. Bad debts are potential costs as some debts can never be paid. A trade debtor could have his business financially collapsing before paying you. Discounts for prompt payment are costs you have to foot though this cost may eliminate earlier costs raised above. Foreign exchange rate costs are risks and costs in advancing trade credit in other currencies.

Knott (2004) noted that the collection efforts should aim at enhancing financial performance of the company by reducing bad debts and recovering money from slow paying customers.

Pandey (2004) defines Credit management to involve the policies and practices firms employ to collect repayments from their clients. It actually involves putting in place an operational credit policy system which sets out clearly the guidelines for supplying goods on credit, the credit standards, credit terms and credit monitoring.

On the other hand Srinivasam (1999) defines Credit monitoring as policies that emphasize the credit terms and limits that must be adhered to and the allocation of responsibility to the credit control executives to reconcile and follow up of the company clients, this should be accurate, up to date with proper good records like received and acknowledged invoices, the constant review of the aged debtors list and continuous monitoring of the position of receivables as part of the overall working capital management which helps to evaluate the effectiveness of the credit policy in place.

1.2.4 Contextual Background.

Interfreight is one of the 380 logistics firms that are registered in Uganda,(http://www.ura.go.ug). Interfreight Uganda Limited stands in the bracket of one of the top four firms by size, market share, as well as being one of the oldest clearing firms in Uganda. The firm began operations in 1968 as Panalpina and was involved in freight forwarding and transport logistics, falling under rail, road, air and sea. In 1995 it became Interfreight forwarders Ltd, spinning off its transport haulage section. After this it became Interfreight (U) Ltd. It is in 2011 that it merged with Spedag to become SpedagIntefreight (U) Ltd. This entity has operational and strategic partnerships with regional and global players. Uganda is landlocked and has to ferry in imports and transport exports to the port of Mombasa mainly, though Dar e salaam is an alternative but less favored route.

Interfreight offers services like project forwarding, air freight services, sea freight services and transportation,(www.spedagintefreight.com),the company has a credit policy extending trade credit but with the advent of economic liberalization the mode of doing business evolved. In the days when the Ugandan government conducted business through the various corporations it operated, it used to export coffee, cotton, copper, timber, and a few non- traditional exports like horticulture, in the reverse government would import the inputs and other necessities that were used in the provision of services and related activities. Dealing with government had the assurance that payment was inevitable, so credit to government bodies was always bound to be paid. The fall in world commodity prices in the late 1980s forced the Ugandan government to exit business leaving it to the private sector totally profit driven and out to cut costs. Notably Liberalization of the economy increased competition in the face of a poorly performing economy (Katz 1992). This drove companies to extend trade credit to boost sales and profits but private sector players can go bankrupt unlike governments. Notably according to Interfreight Standard Operating Procedure for the Finance Department documented 2006,The Credit Policy of Interfreight clearly outlines the credit procedures, this is evidenced in the company's documented policy where clients are classified as:-

a) Cash clients who are clients who have to pay in advance the entire charges prior to accepting the job by Interfreight. All new clients will automatically fall under this category unless a specific credit appraisal has been done.

b) White listed clients which are companies with very large operations and are recognized as globally as the "Top most companies" based on their market capitalization, annual turnover or asset base. The list of these companies is maintained and updated by the Finance team and any modification to the list can be done with approval from Regional CFO.

c) Credit clients who are regular clients with good volumes and also good payment record. Though new clients can avail this facility either by going through a complete evaluation by Credit Control Team or by placing suitable guarantee and security with Interfreight. However despite the well outlined procedures for offering credit to its clients, Interfreight financial performance has not improved as expected although the imbalances in the financial performance isn't entirely as a result of the poor credit policy system but also other factors.

Pandey (2002), Kakuru (2002), Weston (1989), and Copeland (1981) all agree that a poor credit policy leads to poor organization financial performance. Solid trade credit policy should underscore credit standards, definite credit terms and robust Monitoring procedures.

Table 1.1 that follows illustrates how liberal credit standards impacted negatively on Interfreight (U) Ltd's profitability over time. The Management put in place an Independent Credit Control Department with well trained and qualified Officers responsible for collection of Debts however the trend of Profitability in relation to Trade credit, Impaired Debt provision and Bad Debts written off, at Interfreight (U) Ltd exposes a weakness in the Credit System.

Table 1: Interfreight Uganda Profit Trends 2005 -2010

	2005	**2006**	**2007**	**2008**	**2009**	**2010**
Trade Credit	835,545,039	1,146,159,523	1,505,594,570	1,375,925,295	1,164,174,667	1,220,558,000
Bad debt Provisions						574,839,000
Bad Debt written off.			321,301,702	383,730,110	11,550,000	
Net profit/Loss	95,928,588	106,054,253	(92,204,338)	(151,015,988)	83,780,644	37,803,833

Source: ***Management accounts, Interfreight (U) Ltd. (2010)***

From the preceding summary we note that over time the profit trend of the firm has both increased and declined in relation to the changes in the amounts tied up in trade debt. The researcher is of the view that if the credit policy procedures had been optimally formulated as well as other functions, probably losses would not have been realized in 2007 and 2008 and this research will feel the void.

1.3. Statement of the problem

An effective credit policy system is believed to promote healthy financial performance for any business entity. Indeed Interfreight attaches utter most attention to the credit policy in a bid to turn credit sales into cash, however the company’s profit trends as reflected in the Company’s Management Accounts reflect a loophole in the Credit System despite the presence of a well documented credit policy. The firm's Management in a bid to turn credit sales into cash instituted a credit policy aimed at harmonizing its relationship with customers without compromising its financial performance, however over the years the credit policy has been questioned for its effectiveness in ensuring a health financial performance. The firm has a credit control department with well qualified credit control personnel, these follow a well documented credit policy system which clearly stipulates the category of clients as:-a) Cash clients, B) White listed clients, C) Credit clients and D) Prior to release clients all of which are clearly elaborated. However, with a credit policy and an independent credit department in place, the company's profits trends continued to dwindle for example the firms' profits increased at a 9% rate in 2006 from 11% in 2005 against receivables, The credit policy in place was not effective enough that any one was granted credit without prior analysis which increased the amount invested in trade debtors to 31% in 2005 and 9% in the financial year 2006 though with Bad debts written off, this adversely had a negative impact on the profits of the company as well as its liquidity position as the firm incurred a net loss of 6% against Receivables in 2007 and worse still 11% in 2008. This poor state of affairs in the financial performance of Interfreight puzzles and makes one wonder whether the credit policy of the firm was adhered to and if so "what went wrong." It portrays a credit information gap in the credit system of the company and if the situation is not handled well, it could lead to many more undesirable outcomes. It's this apprehension that has motivated the researcher to research into the causes of this unhealthy financial performance.

1.4 General objective

The general objective of the study is to establish the relationship between credit policy and financial performance at Interfreight Uganda Limited.

1.5 Specific objectives

I. To establish the relationship between credit standards and financial performance of Interfreight Uganda

II. To establish the relationship between credit terms on financial performance of Interfreight Uganda.

III. To establish the relationship between monitoring of the credit policy influence financial performance of Interfreight Uganda

1.6. Research questions

I. What is the relationship between credit standards and financial performance of Interfreight Uganda?

II. What is the relationship between credit terms and financial performance of Interfreight Uganda?

III. What is the relationship between credit monitoring and financial performance of Interfreight Uganda?

1.7. Research hypotheses

I. There is a significant relationship between credit standards and financial performance of the firm.

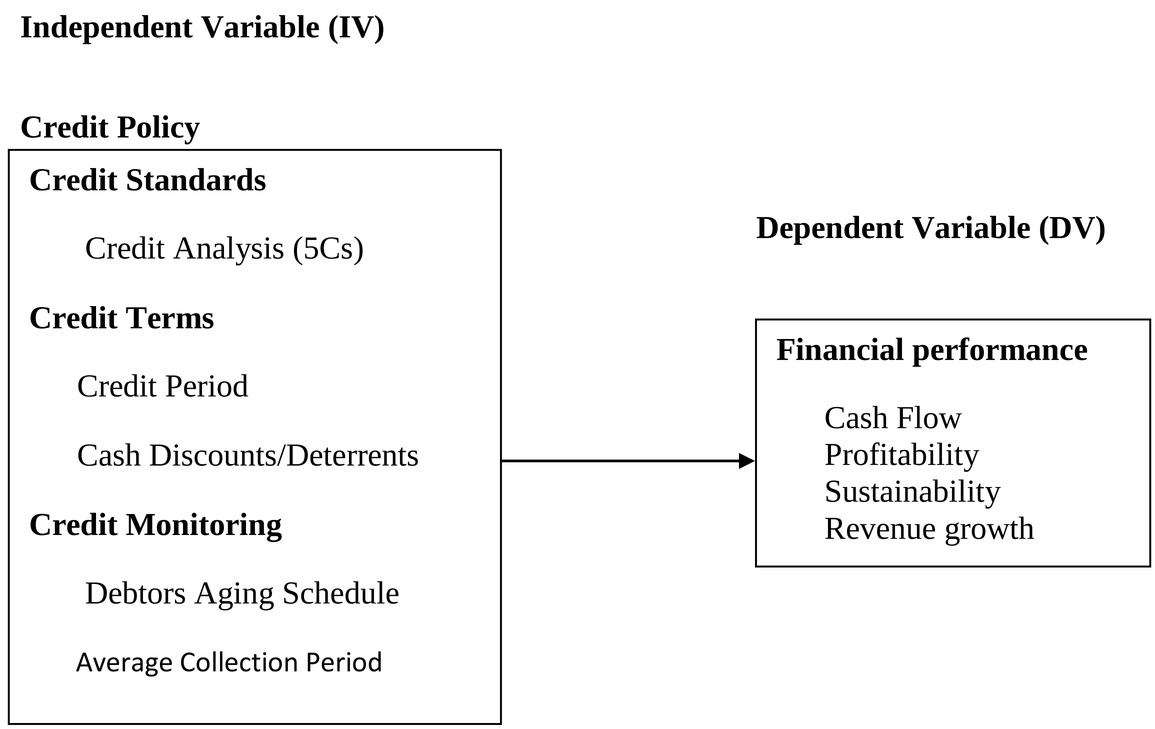
II. Credit terms significantly influence financial performance of the firm.

III. Credit monitoring significantly influences the financial performance of the firm.

1.8. Conceptual framework

The frame work (Table 1.2) will mainly use the many to many relationships illustrated below

Figure I: Conceptual framework showing the relationship between credit policy and Financial performance



Source: *Adapted and modified by researcher from Travino and Youngblood (1990) Fisher et al., (pp.27).*

The above conceptual framework illustrates the relationship between elements of credit policy and financial performance. The independent variables considered in this study are credit standards, credit terms and credit monitoring that are believed to affect the dependent variable. The dependent variable is conceptualized as organization financial performance with constituents as cash flow, profitability, sustainability, liquidity, and revenue growth. The relationship between the identified factors and financial performance will tell the extent to which the two Variables are correlated and how the Independent Variable impacts on the Dependent Variable in this Study.

1.9 Significance of the study

To the board and management of firms in the logistics industry, the study will help develop empirical evidence for strengthening credit policies for enhanced financial performance and protect the financial interests of the company while mitigating the cost of over investing in trade credits and risk of impaired debt assets.

The study intends to generate new knowledge in credit policy and financial performance and help cover literature gaps on the relationship between credit standards, terms, monitoring and financial performance which could be used for future reference.

1.10 Justification of the study

With the increasing risk of losses and bad debts due to non repayment of credit sales, there was an increasing need to assess the impact of credit policy on financial performance of firms in the logistics industry. This study focused on the relevance of credit policy that included but not limited to credit standards, credit terms and credit monitoring and their impact on financial performance. This study is the first of its kind in the company and therefore provided first hand practical experience on credit policy and financial performance of firms in the logistics industry in Uganda..

1.11 Scope of the study

1.11.1 Content scope

This study focused on the credit policy under the dimensions of credit standards, credit terms and credit monitoring and its effect on the financial performance.

1.11.2 Geographical scope

This study was conducted at the IF Uganda head office in Nakawa industrial area, Kampala District, in Nakawa Division 4kilomiters from Kampala City Center which is the headquarters charged with policy formulation and implementation to achieve the company targets.

1.11.3 Time scope

The study covered the period 2005 and 2011, the time scale is justified by the fact that Interfreight credit policy was formally documented in 2005 and only revised in 2011 taking into account of the pre and post merger period.

1.12Operational definition of terms and concepts

Aging accounts receivable - The process of classifying accounts receivable by their age outstanding as of a given date.

Average collection period – the average number of days for which receivables are outstanding before being collected. It can also be called receivable turnover in days.

Credit Analysis – when granting credit, a firm tries to distinguish between customers that will not pay. Firms use a number of devices and procedures to determine the probability that customers will pay.

Credit Control- an activity intended to increase sales revenue, by extending trade credit to potential borrowers who have been found credit worthy, and mitigating risk of default.

Cash Discount – a percent reduction in sales price allowed for early payment of invoices.

Credit Policy –are the policies and procedures companies use to receive payment from their trade debtors. These are clear written guidelines setting the terms and conditions for offering trade credit, techniques of debt collection, and methods of handling delinquent customers

Credit period – the total length of time over which credit is extended to a customer to pay a bill.

Credit risk –the possibility of bad debt resulting from defaulting trade debtors

Credit standards – refer to the minimum quality of creditworthiness of a credit applicant that is acceptable to a firm.

Credit Terms – A firm must decide on certain conditions when selling its goods and services for credit. The terms of sale may specify the credit period, the cash discount, and the type of credit instrument, Ross Westerfield, (1999)

Financial performance- refers to a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also as a general measure of a firm's overall health over a given period of time and can be used to compare similar forms across the same industry.

Liquidity – The ability of an asset to be converted into cash without a significant price concession.

Liquidity ratios – these refer to the ability of a firm to meet its financial obligations as they fall due in the short term, without disrupting the normal operations of the business.

Trade credit- this refers to the financing that firms receive from their suppliers in the form of delayed payments for the transfer of goods or services. It's the open account, short term (30-90 days) deferred payment terms offered by a seller to a buyer as a standard trade practice or to encourage sales.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of related literature on credit policy and financial performance based on what other scholars have observed world over. The first section presents the theoretical and conceptual review which is followed by a review of related literature in relation to the study objectives of credit standards and financial performance, credit terms and financial performance, credit monitoring and financial performance and as summary of the literature review.

2.2 Theoretical review and conceptual review

2.2.1. Theoretical review

This study was underpinned by the Goldratt (1990) theory of Constraints (TOC), according to Goldratt this theory asserts that every organization must be as a system with a goal hence, every action taken by any part of the system must be judged by its impact on that goal.TOC emphasizes that it is imperative to define measures that allow for the evaluation of the impact of any subsystem, and of any local action in this subsystem. Accordingly the Goldratt (1990) theory asserts that a system constraint is defined as anything that significantly prevents a system from improving its performance towards that goal. The theory further asserts that every organizational system presents at least one constraint, the constraint may be physical such as a machine with limited capacity, a policy or a behavior constraint.

In support of the Goldratt (1990) theory assumptions, Mabin and Balderstone (2003) noted that policy constraints often arise when the company environment changes while its policies remain unchanged yet policy constraints are usually under the control of the organization's management.

TOC suggests five focus steps that must be followed to ensure effective ongoing improvements (Goldratt, 2004):

(1) Identify the system constraint(s).

(2) Decide how to exploit the system constraint(s), i.e. increase the system throughput, completely eliminating any kind of waste in the system constraint.

(3) Subordinate everything else to that decision. This implies ensuring that all the other elements of the system work towards exploiting the constraint, which should be evaluated according to how well they achieve that objective.

(4) Elevate the system constraint(s), i.e. increase the system throughput by increasing the investment volume towards the constraint, e.g. by investing in new market segments to elevate a market constraint.

(5) If a constraint was broken in a previous step, return to the first step but prevent inertia from becoming the system constraint.

An important aspect of the TOC steps is their orientation towards performance improvement efforts aimed at achieving functional and whole organizational performance. TOC, unlike many continuous improvement initiatives intends to reduce operational expenses and which by its inherent nature would be limited (Larsson *et al*., 2008), it makes more sense to focus improvement efforts on increasing policy effectiveness (Boyd &Gupta, 2004). In using the TOC, this study noted that to achieve the desired organizational financial performance, the management of Interfreight will need to examine the credit policy or policy constraints and developing the necessary interventions to remove the credits system weaknesses. It is also important to evaluate the debtor's behavior constraining the financial performance of Interfreight as suggested by the Goldratt (1990) in the analysis of constraining systems which significantly impact on the financial performance. Furthermore the credit action taken by the credit department should be critically judged by its impact on that financial performance of the company and developing the necessary interventions to mitigate its negative impact on the financial performance as suggested by the Goldratt (1990) TOC. In conclusion, the TOC underpinned this study in identifying credit policy constraints and its impact on financial performance of SPIF and held develop recommendation for improvising on the credit policy constraints.

2.2.2 Conceptual review

The concept of credit Policy is not a new phenomenon in the business world. Many have realized the importance of a coherent well documented credit policy to guide credit officials with collection of debts. Credit policies are designed based on product characteristics, location, trading relationships, financial strength, as well as market share (Salima, 2007). Credit policy can be viewed as written guidelines that set the terms and conditions for supplying goods and services on credit, customer qualification criteria, procedure for making collections and steps to be taken in case of customer delinquency. This term can also be referred to as collection policy. Ojeka (2002) defines it as guidelines that spell out how to decide which customers are sold on open account, the extent payment terms, the limits set on outstanding balances and how to deal with delinquent accounts (Ojeka, 2002)

Pandey (2004), and Kakuru (2003) all advance that firms sell on credit because of the following reasons:

Credit helps to increase and maintain market share in both growing and declining markets respectively'

Credit is a marketing tool for expanding sales and it acts as a bridge for the movement of goods from producers to distribution centers. In Uganda, private companies have been in existence but the recent adoption of trade liberalization and privatization has led to more private sector led investment in formal business, more competition at this level has led to adoption of international business practices and trade credit is one of them. It is of note that credit management itself has not been embedded and integrated in business strategic operations of many business enterprises (Kirkman, 1997; Wiljest, 2002; Salima,2002).

In Uganda particularly, the subject of credit policy has just began to draw the attention of researchers and business practitioners. Subsequently volumes of credit literature is found on credit extension by the banking sector but otherwise there exists a general failure to recognize the fundamental importance of embedding and integrating sound credit policy systems in every aspect of commercial operations (Salima,2002) and as a consequence, business is conducted mostly on a cash basis which is limits potential sales.

According to Puru (2000) credit helps production, distribution, selling, consumption and expansion, It helps to even out the rough curve of seasonality in seasonal business, increasing immediate buying power of a consumer. This has to be offset by balancing against the risks and costs of extending credit. Trade credit could lead to business failure due to overbuying, overexpansion or overselling and can have a significant influence on sales as noted by Horne (2003). Consequently the single most important factor is the maintenance of proper cash flow in operating a successful business.

It is worth noting that Cash flow problems can be avoided by making sure that you administer and manage credit with financial prudence and get paid promptly on the due dates for goods or services rendered. Accounts receivables which can broadly be defined as uncollected sales are one of the largest assets of a business amounting to approximately 15% to 20% of the total assets of a typical manufacturing business.

Horne (2003) further notes that writing an effective credit policy begins with an understanding of the financial exposure that you or your business can endure and the amount of working capital that you would be willing to risk or call it ‘invest’ in your customers. Therefore credit terms within a credit policy of any firm have to be well structured with clear guidelines. The Credit terms quality of the trade receivables, prevailing market competition, credit period, cash discounts for early payment, expected profit margins on sales, the elasticity of demand for the products ,the collection expenditure as well as any other special terms that management may decide to employ will determine whether credit policy is liberal or stringent. Under a liberal credit policy the company may lower quality standards and extend credit so as to attract buyers, In contrast restrictive credit practices will selectively identify potential credit customers with an intention of minimizing exposure to receivables with prospective profits lowering as well (Bonin and Huang, 2001).

Fisher (1997) Early (1996) and Greuning and Bratanivic (1999) studied the banking sector and observed that the credit policy should be in line with the overall bank strategy. In designing a credit policy the company should critically review the existing credit policy, industry norms, and general economic conditions. The guiding principle in credit appraisal is to ensure that only clients who require credit and are able to meet repayment obligations are rendered servicers on credit and this should be extended based on capability and current performance. Notably Kakuru (2002) defined credit policy management as a set of actions designed to minimize costs associated with trade credit while maximizing the benefits from it. Gittman (1982) and Brealy et al(1991) articulated the credit policies to mean the following functions : setting standards, choice of instruments to use for legal actions, establishment of credit terms, establishment of credit limits, establishing credit monitoring and collection procedures.

Ross and Westerfield (1988) proposed that for any credit policy to be feasible, it should have the following components: terms of sale where the firm must decide on the condition on which it proposes to sell its goods for cash or credit, then the sale may specify the credit period, the cash discount and the type of credit instrument.

Secondly, credit analysis is defined as the means by which a firm determines the amount of effort to expend in trying to distinguish between customers that will pay and those that will not pay, procedures as credit information and scoring that the entity uses all together form credit analysis. Thirdly, collection policy which is comes after the decision to grant credit is made, the firm has the potential problem of collecting the cash when due, the collection policy it employs will include Average Collection Period, Aging Schedule and Collection efforts.

However the component of a good credit policy differs according to Pandey (2003), who advances that for any policy to be effective it must have the following:-

Credit Standards and analysis which he defines as the criteria to decide the types of customers to whom goods are sold on credit and here the 5Cs are considered together with credit scoring.

Credit Terms which are the stipulations under which the firm sells on credit to customers, these include credit period which is the length of time for which credit is extended and cash discount which is the reduction in payment offered to customers to induce them to pay before the due date.

2.3. Credit standards and financial performance

Credit standards are the minimum quality of creditworthiness of a credit applicant that is acceptable to the firm. In theory, the firm should lower its quality standards for accounts accepted as long as the profitability of the sales generated exceeds the added costs of the receivables. This is a criteria that the client should meet to qualify for credit and according to Kakuru (2000), these require intensive analysis to ensure effectiveness. To Bogeson (1994) credit standards are the set criteria that the firm follows when selecting clients for credit allocation. It is vital for credit standards to be set basing on individual credit applicant by considering credit information limits and default rates .Kakuru (2001). These Standards are a pivotal question in the credit policy of the firm as they highlight what standard should be applied in accepting or rejecting an account for credit granting. A firm has a wide range of choices in this respect, at one end of the spectrum it may decide not to grant credit to any customer, however strong his credit rating may be. At the other end, it may decide to grant credit to all customers irrespective of their credit rating, between these two extreme positions lie several possibilities which are often the more practical ones.

In general, liberal credit standards tend to push sales up by attracting more customers. This is however accompanied by a higher incidence of bad debt loss, a larger investment in receivables, and a higher cost of collection on the other hand Stiff credit standards have the opposite effects. They tend to depress sales, reduce the incidence of bad debt loss, decrease the investment in receivables, and lower the collection cost which all have an impact on the financial performance of the company. http://www.citeman.com/3656-credit-policy.html#ixzz2MjOJepXQ

2.3.1.1 Credit Analysis

Horne, (2008) asserts that after having established the terms of the sale to be offered, the sellers' firm must evaluate individual credit applications and consider the possibilities of a bad debt or slow payment. The credit analysis criterion involves three related steps: obtaining information on the applicant, analyzing this information to determine the applicants' creditworthiness, and making the credit decision. This credit decision, in turn establishes whether credit should be extended and what the maximum amount of credit should be. Credit analysis involves establishing clients' willingness and ability to meet the credit obligations as they fall due. The firms credit analysis should ensure that they meet the firms credit standards, (McNaughton,1996) and it should follow a typical domestic process flow.

Having collected credit information, the seller firm must make a credit analysis of the applicant. In practice, the collection of information and its analysis are closely related. If, on the basis of initial credit information, a large account appears to be relatively risky, the credit analyst will want to obtain further information. Presumably, the expected value of the additional information will exceed the cost of acquiring it.

This review will examine the Five Credit Customer Evaluation Criteria of credit analysis in evaluating the creditworthiness of credit applicants.

The findings of Ross and Westerfield (1999), Brigham (1930) Weston and Copeland (1989, p292) all categorize credit analysis based on what has been named as the Five Credit Customer Evaluation Criteria (5Cs) namely:

Character- the ability of the customer to pay. Clients with high levels of honesty and integrity are preferred because they commit to their obligations. Credit managers frequently insist that the moral factor is the most important issue in credit evaluation.

Capital- the customer's financial condition. It is basically measured by the general financial condition of a firm as indicated by an analysis of its financial statements.

Collateral- it is the ability of creditors to collect on bad debts if the customer liquidates its assets.

Capacity- it is the ability of the customer to pay, it is the ability to meet obligations out of the operating cash flows, this is usually gauged in their past records and business methods and may be supplemented by physical observations of customers' stores

Conditions- sensitivity of the customer's ability to pay to underlying economic and market factors.

The foregoing credit evaluation criteria are the parameters upon which customer credit rating is done.

However according to Khan and Jain (2007) the analysis of information is be classified into quantitative and qualitative information. Quantitative analysis is based on the factual information gleaned from the financial statements and the past records of the firm. The first step involved is to prepare an aging schedule of the accounts payable of the applicant as well average age of the accounts payable, this will give an insight into the past payment pattern of the customer. Another step in analyzing the credit information is through ratio analysis of liquidity, profitability and debt capacity of the applicant, these ratios should be compared with the industry average, this trend analysis will over a period of time would reveal the financial strength of the customer. On the other hand the qualitative would cover aspects relating to the quality of management which are got from the supplier's bank references and specialist bureaus would form a basis for conclusion to be drawn.

This is however discounted by Petersen and Rajan (1997), after research they conducted on trade credit where they concluded that suppliers do not appear to rely on information provided by lending relationships, measures of the strength of institutional relationships or the risk premiums on institutional loans granted, have little effect on how much trade credit a firm is offered.

A reasonable conclusion from the data is that suppliers collect and use different information than financial institutions. The most valuable aspect of this information may be how current it is.

By monitoring repayment and using discounts as a trip wire, suppliers get a quick read on a firm's financial and economic health, (Smith 1987).

Pandey (2002) continues to argue that "analysis of customers by credit standards raises the quality of the firm's customers'. There are determinant aspects of quality of customers, the time taken by customers to repay their obligations and the default rate.

Additionally authoritative literature on organizational financial performance emphasize that credit standards are fundamental in credit policy management as the credit applicant must be evaluated and monitored carefully otherwise the celebrated increase in sales could be outweighed by losses due to default, past due receivables accounts and hence stakeholders dissatisfaction which is an indicator of poor credit management and resultant adverse financial performance. This has been emphasized by e-bay-"buy and sell with confidence " that constant knowledge and monitoring of yours customers is paramount to credit management (E-bay, http://pages.ebay.co./help/confidence/hub.html5/16/03)

Therefore the company's choice of credit policy is a function of both the competitive business environment and the overall company objectives as observed by Refuse,(1960). Good credit standards and appraisal procedures ensure that a firm sells on cash basis and can only offer credit to the financially reliable clients using well laid down credit terms Pandey (2004).

Basing on the economy therefore, credit managers should establish optimum credit control policies to take into consideration variables such as credit standards, terms, monitoring and collection efforts which influence the level of credit sales and receivables as well as the degree of credit exposure to the company (Burgess, 2001). This is in accord with the findings of Knott, (2004) who asserted that the longer the credit period granted, the greater the incidence of bad debts. Therefore the decision to grant credit is made, after an analysis of the credit applicant. If there is the likelihood of another round of credit application, by a repeat buyer, the seller needs to establish procedures that will enable it avoid going through the full credit analysis process of extending additional of credit by establishing a line of credit.

Horne, (1999) defines a line of credit as a maximum limit on the amount the firm will permit to be owed at any one time, in essence it represents the maximum risk exposure that the firm will allow to undergo for an account. This line of credit streamlines the procedures for shipping goods with the facility being re-evaluated on a regular basis so as to keep abreast of developments on the account as a downgrade of the account quality. Despite the widely accepted importance of credit analysis, variance in the credit analysis process is common and Petrie (2006) raising numerous concerns arising from lenders often getting the credit into the queue as rapidly as possible with less-than-adequate information. In the absence of critical relevant information, meaningful evaluation by the analyst is constrained thus slowing the underwriting process significantly making the analyst ending up dealing with several credits concurrently yet the greater the number of credits under active underwriting, the greater the likelihood for errors, inconsistencies, or oversights in the analysis. Thus correct information is necessary to precede the credit analysis process (ibid).

2.4. Credit terms and Financial Performance.

Pandey (1993) defines Credit terms as stipulations under which credit is granted. These involve both the length of the credit period and the discount given, Horne (2002) and Tumuhimbise (1997) assert credit terms as the chronological pattern by which the receivables granted during a period are converted into cash, driving the innovation of credit monitoring and recovery. Typically these terms specify the period to the client within which to pay off the amount due and may demand cash in advance, cash on delivery, differed payment period of 30 days or more, (Business Dictionary).Credit terms also refer to the written or stated policies given to a customer with regard to the timing of payments, discounts for early settlements, the methods of payment and (if applicable) interest or penalties for late payment. The terms of payment on business to business sales can take many forms and a wide variety of possible payment terms can be offered. Cash on or before delivery obviously does not involve trade credit. Progress or 'stage payment' terms usually involve an upfront deposit or down payment with the outstanding invoice value being spread in payments over a set period. The majority of trade credit sales however are offered on a net period or net period with cash discount for earlier settlement .Wilner (1995).

2.4.1 Credit Period / Limit

There are two types of credit terms under which credit can be given (Ng et al.; Walker and Petty II, 1986; and Pike et al., 2005).One type is called net credit term or net period. Net period refers to the credit given to the customer without a discount (Wilson, 2008).In this type of credit period, a buyer is required to pay for the goods delivered within the agreed date (say, 30 days after delivery). A debt which is not paid within that agreed date is known as a past due debt and the debtor is charged interest on the amount due. This contributes to marginal profitability of the service supplier as long as the marginal costs of the collection of the overdue amount are less than marginal profits.

Another type of credit term involves the credit period with discount. In this case the buyer obtains a certain discount on the total bill if he pays before or on the due date (Ng et al., 1999; Pike et al., 2005). This inducement aids the firm to get earlier cash inflows, strengthening its liquidity, and mitigating the cost of bad debts but this is a conservative credit policy emphasizing liquidity, minimizing exposure to the risk of default, leading to a dampening of profitability. Generally the credit period is another means by which a firm may be able to increase product demand, increasing sales. As before, the trade off is between the profitability of additional sales and the required return on the additional investment in receivables. If a firm changed its credit period from "net 30" to "net 60" increasing its credit period from 30 to 60 days, average collection period for existing customers going from one month to two months,so for the first 30 days after the credit period change, original customers will be paying bills incurred before the change in credit policy since sales to original customers remain unchanged, the levels of receivables remain unchanged during the next 30 days, however, no payments from these customers will be received as they will now wait to pay until 60 days have passed. Receivables will build up until at the end of 60 days from the policy change, we have to double the level of receivables that we began with. The firm has lost one month's cash that would have flowed in from receivables and double the receivables on the books, (Horne, 2008 pp. 252).

Additionally lengthening the credit period delays cash receipts impairing the firm's liquidity, though it will have contributed to growth in sales and more profitability if the debt is finally paid. This would be an aggressive credit policy gearing for more profits and risk. M. Y. Khan, asserts that the effect of an increase in the credit period would increase the sales volume, increasing profits, but then this would increase the average collection period eating into profits as the increased investment in receivables would raise costs with the risk of bad debts ever looming with the longer average collection period . An increase in investment in receivables would increase the financing cost for the seller though profitability would improve with the increase in sales. This credit policy would reduce the liquidity available of the service supplier increasing the risk to the sellers' sustainability. Several studies point to the relationship between the buyers' firm size and the trade credit period. They suggest that the length of the credit period depends on the size of the buying firm. Paul and Borden (2008), Fafchamps (1997), and Giannetti et al. (2008) associate the size of the buying firms with bargaining power.

2.4.2 Cash Discounts.

Discounts for early payment seem to be offered to riskier buyers to limit the potential of non-payment risk when credit is extended for non-financial reasons, mitigating bad debts and therefore enhancing profitability, triggering earlier cash inflows, boosting the liquidity of the seller's firm, boosting firm sustainability and resultant financial performance as the firm's value appreciates,(World Bank.WPS 5726). But Horne (2008) asserts that when a firm pursues policies that reduce risk, this also results in reduced profitability as it pursues a conservative credit policy. Therefore giving early payment discounts to reduce exposure to apparently riskier buyers speeds up cash inflows boosting the sellers' liquidity but inversely reducing profits.

Contrary to the above postulations, service suppliers provide weaker incentives for early repayment than do suppliers of standardized and differentiated products. Service suppliers are less likely to offer early payment discounts, they concede longer discount periods and give smaller discounts. These findings support the diversion vulnerability hypothesis (Burkart & Ellingsen, 2004). Additionally as argued by Pike (2005), suppliers may offer larger discounts to large buyers with lower risk for the purpose of price discrimination rather than reducing risk Moreover the same argument applies to cases where there is a strong relationship between the supplier and buyer or where the seller is large with significant market power. So if the supplier is large with market power and attracts creditworthy customers, the main purpose of the discounts will be price discrimination. We expect that suppliers with more market power are able to offer earlier payment discounts with varying discount sizes and periods depending on the characteristics of the buyers, Altunok, (2011).This situation would improve the certainty of earlier cash inflows improving liquidity, reducing the cost of bad debts, improving revenue growth beyond the short term as discounts discourage your long time customers from switching to other suppliers and as a consequence sustaining long term profitability (McKeaveney, 1995).

Giannetti, Burkhart, and Ellingsen (2011) observed that cash discount if taken up by the buyer has implications for the sales volume and shortening the average collection period as it speeds up cash inflows thereby improving liquidity. The discount reduces the average investment in receivables, improving profitability in the short term; this holds true if the marginal cost of investing in receivables exceeds the marginal benefits as it mitigates possible bad debt expenses which affect profitability positively. Early payment discounts are always given as incentives for payment at an interest-free in case of two-part terms until the expiration date of the discount period and hence should optimally be used until this date. Danielson and Scott (2004) report that 72 percent of their interviewed firms state to take early payment discounts usually or always. Conversely, Summers and Wilson (2003) report that only 17.5 percent of their interviewed suppliers state that customers always or frequently forego offered discounts. Taking into account that on average less than one-third of trade credits are extended on two-part terms and that about two-thirds of offered discounts are taken, interest is actually only due for about 11.1 percent of trade credits. Putting it differently, this means that about 88.9 percent of trade credits are used at an interest rate of zero percent (ibid).

2.5. Credit monitoring and financial performance

Bass, (1991) defines monitoring as the assembly of a team to be well equipped for emergency as well as routine assignment as query handling and reconciliation. A firm needs to diligently monitor and control its receivable assets to evaluate the success of its collection efforts. This necessitates good information technology that accurately reflects client account activity (Brealey et al., 1991: Tumuhimbise, 1997).

Kakuru, (2003) in his study on credit monitoring asserts that a firm should have a well organized credit monitoring process to reap financial benefits averting the prevalence of payment defaults, this is in agreement with the findings of Kirkman (1997) who noted that extension of credit decisions should be coupled with the establishment of proper monitoring strategies, to avert liquidity shortfalls. Collections of receivables have to have predetermined guidelines, procedures and actions for implementation (Lawrence, 1998; Boyce, 1967; Evancerich et al, 1991).

Peterson, (1994) asserts that a company can monitor how well accounts receivable are managed by using aging schedules and enhanced use of computer technology. Ageing schedule is a breakdown of the accounts receivable by the time they have been around, helping the firm get a more detailed picture of its collection efforts and a collection policy which refers to obtaining payment for past due accounts receivables. The credit manager maintains a record of payment experiences with each customer. The initial step is to analyze the average collection period and to prepare an aging schedule that relates the age of accounts to the proportion of the accounts receivable they represent.

2.5.1 Debtors aging schedule

An aging of accounts receivables gives considerably more information than does the calculation of the average collection period because it pinpoints the trouble spots more specifically (Horne, 2008; pp.144). Additionally Pandey, (2002) asserts that it is superior to the average collection period by being able to break down receivables in line of length of time that receivables have been unpaid. The schedule sheds more light on the collection experience improving the identification of slow paying debtors.

A debtors aging schedule is also another means by which one can obtain insight into the liquidity of receivables and management's ability to enforce its credit policy through aging accounts receivable. It is a way of finding out if customers are paying their bills within the credit period prescribed in the company's credit terms. Every day that a customer is late making payment on their account costs company money from a cash flow point of view, so preparing an aging schedule and acting upon it with regard to the collections policy is an important financial management step for a business firm. If the finance manager finds that a high percentage of customers are slow in paying their bills, there should be a necessity to re-evaluate credit and collections policies and make some changes. With this method we categorize the receivables on a given date according to the percentages billed in previous months. It is the process of classifying accounts receivables by their age outstanding as of a given date. Below is an example of a hypothetical aging schedule of accounts receivable at December 31

Aging schedule for accounts receivable as of December 31.

Month of credit sale	Dec	Nov	Oct	Sept	Aug and before	
Months past due	current	0-1	1-2	2-3	3or more	
Total Percent of total	Accounts receivable					
Balance outstanding	67	19	7	2	5	100

If the credit terms are “2/10, net 30,” this aging schedule tells us that 67 percent of the receivables outstanding at December 31 are current,19 percent are upto one month past due, 7 percent are two months past due, in that manner. Based on the conclusions drawn from this analysis of the aging schedule, we may want to examine more closely the firms’ credit and collection policies. In this example, we may be prompted to investigate the individual receivables that were billed in August and before to determine whether they should be charged off as bad debts.The receivables shown on the books are only as good as the likelihood that they will be collected.

Pandey, (2002), asserts that it is superior to the average collection period by being able to break down receivables in line of length of time that receivables have been unpaid. The schedule sheds more light on the collection experience improving the identification of slow paying debtors. Its limitation is that it does not match receivables to when sales occurred, accurate information about the ages of receivables is crucial as these can greatly affect cash flow forecasts. Sales personnel should be able to access on a customer’s credit history and then they should receive special approval before extending credit to a customer who has a history of delinquent payments, (Hilton , Maher, Frank Selto (2000). Consequently additional credit is denied to clients with overdue receivables, pending regular operation of the receivables as per agreed credit terms. Post dated cheques are used as collateral for trade credit extension but slow moving receivables should be handled diligently to avoid errors (Harris and Graham, 1999).therefore the Aging of account receivable identifies your problem customers, and also allows you to manage your credit policies based upon industry standards. If your accounts receivable are abnormally long, you know you must work harder at collecting for items you have already sold. http://www.smallbusinessnotes.com/business-finances/aging-of-accounts-receivable

2.5.2 Average collection period.

This is the receivable turnover in days informing us of the number of days it takes to turn these receivables into cash. Receivable activity ratios provide an insight into the quality of the firms' receivables and how successful the firm is in its collection,(Horne., 2008, pp.143).

This measure is an activity ratio that examines how efficiently a firm is using its assets, it is a ratio that is closely related to liquidity of a firm. Liquidity is the ability of an asset to be converted into cash without a significant price concession. Accounts receivable in this regard is a current asset. Average collection period examines how liquid are these receivables by sorting receivables that are current and others that are overdue, so a firm that has current assets composed of principally cash and non overdue receivables is generally considered more liquid than a firm whose current assets consist primarily of inventories.

Although too high a collection period is usually bad, a very low collection period may not necessarily be a good one. A very low average collection period may be a symptom of a credit policy that is excessively restrictive, the few receivables on the books may be of prime quality yet sales may curtailed unduly and profits less than they might be because of the restrictive issuance of credit to customers. In this situation, perhaps credit standards used to determine an acceptable credit account should be relaxed somewhat.

Additionally the Average Collection Period can be used to evaluate the effectiveness of the firms' collection policies, by comparing the number of days of credit the firm will determine the net period allowed by credit terms. This information can be used to help the company in cash forecasting since it informs the length of time on average before each credit sales turns into cash. But the firm also needs to consider certain factors in applying this measure. For example, if the sales are seasonal which accounts receivable balance does it use? Diligence must be used when interpreting this ratio since both the numerator and denominator are influenced by firms' pattern of sales, Pamela, (1994)).

The formula to calculate average collection period can be summarized as Accounts Receivable/Credit Sales/365 = # Days. The number for accounts receivable comes from the company's balance sheet. Sales come from the income statement and are adjusted for credit sales. Sales are then divided by the number of days in a year to come up with average daily credit sales. The final result is a number of days, which is the number of days, on average it takes a company's credit customers to pay their accounts.

In order to interpret the average collection period ratio, you have to have comparative data. If you compare the average collection period to past years of company data and it is increasing, that means your accounts receivables aren't as liquid or aren't being converted to cash as quickly as in the past. If the ratio is decreasing, then customers are not only paying their credit accounts on time but faster than they have in the past. The average collection period should be compared with the firm's credit policy to see how well the firm is doing. If the average collection period, for example, is 45 days, but the firm's credit policy is to collect its receivables in 30 days, then the small business owner needs to take a look at the firm's credit policy. (www.bizfinance.about.com/od/financialratios/f/Ave_Collection_Period.htm)

Martin H. Seiden (1964, pp.44) states that care must be exercised in interpreting the collection period. A long collection period can indicate both strength and weakness, the tendency for unprofitable firms to have slightly longer collection periods than profitable firms may be a factor in their unprofitability. Financing is costly and the longer the collection period, the greater the likelihood of loss, delayed cash inflows and short falls in liquidity.

2.6 Summary of literature review

The literature reviewed shows that financial performance is influenced by credit policies that a seller firm employs when extending trade credit to its customers. Whereas the literature reviewed discusses the credit policy dimensions that influence financial performance of firms extending trade credit in general, there is no discussion of firms extending trade credit in the Ugandan Logistics sector. Therefore this knowledge gap needed to be addressed which calls for further investigation of Credit policy management and how it influences financial performance in the Ugandan logistics sector.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter provided a detailed layout of how the research was conducted, it presents the study design, study population, sample size, sampling design, data collection methods and instruments validity and reliability of the study, research procedures and data analysis techniques.

3.2 Research design

The study used a cross sectional design combined with a case study design. Both qualitative and quantitative approaches were used. As justified by Amin (2005), a correlation design was used in the study since it describes in quantitative terms the degree to which variables are related. It involves collecting data to determine whether and to which degree a relationship exists between the two variables under study. The degree of relationship was expressed as a correlation coefficient.

3.3 Study population

Amin (2005) defines a population as a complete collection of all elements that are of interest in a particular investigation. The targeted population of 140 at Intefreight was considered in the study as derived from the Companys Pay Roll where it employs a total of 254 staff however not all departments are of relevance to the research. The study population included all Sales and Marketing Executives,Revenue Accountants/Credit Control,Customer Relations Executives in Exports and Imports as well as the warehouse department. This popualtion was chosen because it makes up the biggest percentage of the people who are directly concerned with the functions of credit management at Intefreight Uganda as a result, one would definetly think that these comprise the biggest number of people who are involved in credit control.

3.4 Determination of the Sampling size

The study sample size indicated in Table 3.1 below and the determination criterion was adopted from Krejcie & Morgan, (1970) sample size table. Using this study the sample size for all departments was based on their population size as per Interfreight Uganda’s Pay Roll.

Table 2: Showing Population and Sampling Technique

Category Of Respondents	Target Population	Sample Size	Technique
Management	12	9	Purposive Sampling
Accounts Department	10	7	Purposive Sampling
Commercial Department	32	24	Simple Random sampling

ICD / Warehouse Dep’t	76	56	Simple Random sampling
Sales &Marketing	10	7	Purposive Sampling
Total	**140**	**103**	

Source: Sample size based on R.V. Krejcie and D.W. Morgan (1970) as cited in Amin (2005)

3.5 Sampling techniques and procedure

Both probabilistic and non probabilistic methods were used. Doscombe (2000) asserts that a sample needs to be carefully selected if there is to be confidence that the findings from the sample are similar to those found among the rest of the category under investigation. In this study, the management team,Accounts department, and sales and Marketing Executives were purposively selected because they are equipped with important information required for the objectives of the study. The commercial department as wellas the ICD/Warehouse departments were subjected to simple random sampling to help the researcher deal with the high number of respondents where the interview technique was not viable. To arrrive at each smaple size, the study used proporoationate samplying thus 103/140* No of each strata after which a suitable sampling method was apllied for each category. For example to get the sample to be used on accounts departement, 103/140*10= 7.

3. 6 Data Collection Methods

These refer to the devices that were used to collect Data. In this study data was collected using Questionnaires and interview guide and are briefly explained below.

3.6.1. Questionnaire survey

As justified by Amin (2005), a questionnaire is a carefully designed instrument for collecting data in accordance with the specifications of the research questions and hypotheses. The questionnaire was used as it enables gaining data on variables that cannot be observed such as views, opinions, perceptions and feelings of the respondents on credit policy and financial performance (Sekeran, 2003). Similarly, the questionnaire was used because it was thought to be less expensive for data collection (Amin, 2005). The study used a close ended questionnaire divided into sections of background information, credit standards terms, monitoring and financial performance with a purpose of gaining insight of how the credit policy affects financial performance. A standard questionnaire on a five point Likert scale ranging from 5-strongly agree,4A- Agree, 3-Not sure, 2-Disagree and 1-Strongly disagree.

3.6.2. Interviewing

In this method the researcher interviewed respondents face to face to obtain in depth information on credit standards, terms and monitoring. The interviews were structured where they comprise of a set of issues on which the researcher wished to draw data and the same questions were posed to the respondents using a guide to conduct the interview. The study specifically interviewed the Business development management and financial controller.

3.7 Data collection instruments

These refer to the devices that were used to collect Data such as Questionnaires and interview guide and are briefly explained below.

3.7.1. Questionnaire

As justified by Amin (2005), a questionnaire is a carefully designed instrument for collecting data in accordance with the specifications of the research questions and hypotheses. The study used a close ended questionnaire divided into sections of background information, credit standards, terms, monitoring and financial performance. A standard Questionnaire on a five point Likert scale ranging from 5 - Strongly agree; 4- Agree; 3- Not sure; 2- Disagree; 1- Strongly disagree.

3.7.2. Interview Guide

The interview guide developed by the researcher consisted of a set of questions, challenges and recommendations related credit stadards, terms and monitoring in the firm.

3.8 Quality Control Instrument

To ensure quality data in terms of validity and reliability, a quality control assessment was carried out.

3.8.1 Validity

Validity refers to the truthfulness of the findings or the extent to which the instrument is relevant in measuring what it is supposed to measure (Amin, 2005). The validity of the instrument will be tested using the Content Validity Index. This involved judges scoring the relevance of the questions in the instruments in relation to the study variables and a consensus judgment given on credit standards, terms, monitoring and financial performance. The Content Validity Index (CVI) was arrived at using the following formula.

CVI = Number of items declared valid

Total number of items

The closer the CVI to 1, the more valid is the instrument and the results are shown in table 3 below.

Table 3: Content Validity Results

Variable	Total No of items	Number of valid items	CVI
Credit standards	10	8	0.800
Credit terms	06	5	0.833
Credit monitoring	13	11	0.846
Financial performance	12	10	0.833

Source: Expert Judgment

Table 3 shows that credit standards yielded CVI of 0.800, credit terms yielded a CVI of 0.833, monitoring yielded a CVI of 0.846, while financial performance yielded a CVI of 0.833. Since all variables yielded a CVI above 0.70 accepted for social sciences, it was inferred that the instrument was relevant in credit policy management and financial performance in SPIF and therefore declared valid.

3.8.2 Reliability

Reliabilty can be referd to as aconstence of a measure. A test is considrede reliable if same results are achieved repeately and in this cash by using a questinaire, reliabilty of results will be enhanced by triangulation (Amin,2005). The questionnaires was pre-testedwith the help of the superviors before commencement of data collection to ensure construct and content validity Prior to the pre-test the reliability coefficient for all the variables were determined from the pre-testedresults using Cronbach's alpha coeffient generated fromSPSS before commencement of the actual data. The Cronbach alpha helps to measure how relaible the data appears to be given the dispersion (how great they varied from the mean) and their correlation with eact other(how great the absolute difrence is between correlated scores).

The results are presented below.

Table 4: Reliability Results

Variable	Total No of items	Cronbach's alpha
Credit standards	10	0.814
Credit terms	06	0.742
Credit monitoring	13	0.816
Financial performance	12	0.893

Source: Primary data

Table 4 above shows that credit standards yield Cronbach's alpha value of 0.814, credit terms yielded alpha value of 0.742, credit monitoring yielded alpha value of 0.816 while financial performance yielded alpha value of 0.893. Since all variables yielded an alpha value higher than 0.70 accepted for social sciences, it was concluded that the instrument was consistent in measuring credit policy management and financial performance and therefore reliable.

3.9 Procedures for data collection

After the proposal had been approved by the supervisors and successfully defended before a panel, any adjustments pointed out by the panel were made and a recommendation letter for commencment to the field was issued from Uganda Management Institute and accessibility granted at Interfreight Uganda Management.The Research Instruments like Questionnaires were pre-tested and the Cronbach's Alpha determined to check the validity and reliability of the research instruments. Adjustments were made according to the results then actual field work was commenced.

3.10 Data analysis

This sub section presents how the data was processed and managed, it indicates the statistical tests that were carried out and how the resulting information was used. They include both the quantitative and Qualitative as briefly explained below.

3.10.1 Qualitative Data Analysis

Bawden,(1990,p27) defines Qualitative Data as Studying the behavior of individuals in all the complexity of their real life situations. This type of data was analyzed by forming themes and statements that were used to measure the relationship between the two variables. This analysis was done concurrently with data collection.

3.10.2 Quantitative Data Analysis

In preparation for data analysis, raw data from questionnaires was checked for completeness, edited, coded and entered into the computer using SPSS software where it was verified for accuracy. Using a tabular form, responses to questions was tallied and thereafter the researcher interpreted each finding based on the descirptive statistics of frequence, percentage, mean and standard deveiation for each objective.

Pearson's coefficient(r) and significance (p) tested at the 95 and 99% confidence limits were used to test if there was any significant relationship between the independent and dependent variable. A positive correlation coefficient (r) indicates the degree of positive association between the variables while a negative correlation indicates an inverse, negative association between the two variables. The regression analysis was also done to test the extent to which the credit standards, terms and monitoring influence financial performance in the firm using ANOVA statistics of adjusted R^2 values, beta, t values and significance values (Amin, 2005). Specifically the adjusted R^2 value gave a statistical indicator of the percentage to which the independent variable predicted the variance in the dependent variable.

3.11 Measurement of variables

Measurement is the process of transforming abstractly conceived concepts into numerical qualities (Amin, 2005).The variables that are outlined in the conceptual framework was measured by a group of related questions and these was ranked on a 5likert scale ranging from 1(strong Disagree) to 5 (Strongly Agree), the indices were generated through the summation of individual feedback per variable from the scale of 1 to 5 as per Shah and Madden, (2003) recommendation on ordinal scale analysis and each of the variable were correlated against the dependant variable financial performance using the Pearson rank correlation test.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.1. Introduction

This chapter presents analyses and interprets the study findings on the extent to which Credit Policy influences the financial performance of Interfreight Uganda Limited. The first section presents response rate, this is followed by background information about the respondents, presentation and analysis of the study findings in relation to the specific objectives.

4.2. Response rate

A total of 103 questionnaires were distributed but 84 useable questionnaires were returned giving a response rate of 82% which was high. Amin (2005) suggested that a high response rate also suggests more accurate survey results. The rest of the questionnaires were not returned even on repeated reminders.

4.3. Background information

This section gives the characteristics of the respondents in relation to age group, education, job title, and time worked with the Interfreight. This is based on the information provided on the questionnaire by the respondents themselves.

Table 5: The background of the respondents

Item	**Description**	Frequency	Percent
Age group	18-25 Years	18	21.4
	26-30 Years	15	17.9
	31-40 Years	36	42.9
	46 and above	15	17.9
Highest education level	Graduate	49	58.3
	Masters	21	25.0
	Professional Qualification	13	15.5
Time worked with Interfreight	Below 5 Years	39	46.4
	5-10 Years	33	39.3
	10-15 Years	12	14.3
Job category	Management	9	10.7
	Accounts Department	9	10.7
	Commercial Department	18	21.4
	ICD/Warehouse Department	42	50.0
	Sales & Marketing	6	7.1

Source: Primary data

Table 5 above shows that majority of 36(42.9%) of the respondents were aged 31-40 years followed by 18(21.4%) who were aged between 18-25 years and 15(17.9%) who were either aged between 26-30 years or 46 years and above. This finding revealed that Interfreight Uganda employed staff of different age categories as officers, supervisors and managers and that the respondents were of a reasonable maturity to understand issues of credit policy and firm financial performance. Similarly, table 5 above shows that majority of 49(58.3%) of the respondents had attained a university degree, 21(25%) had attained a masters degree while 13(15.5%) had attained professional course. This finding suggested that Interfreight Uganda employed mostly graduates in its operations. Similarly this particular finding suggests that the respondents could understand and appreciate the performance of the credit policy and financial performance of Interfreight by virtue of their high education qualifications attained which was first degree and above.

Furthermore, the results in table 5 above show that 39(46.4%) of the respondents had worked in the firm for 1-5 years followed by 33(39.3%) who had worked for 5-10 years and 12(14.3%) who had worked for 10-15 years. This finding suggested that the respondents had attained a good experience in the operations of Interfreight since they had been with the company for over a year and therefore deemed to have good experience on the operations of the firm.

Lastly, table 42(50%) of the respondents were from the ICD/ Warehouse Department, 18(21.4%) were from the Commercial Department, 9(10.3%) were either from Management or Accounts while 6(7.1%) were from the sales and marketing departments. this finding suggested that Interfreight being a logistics firm employed more staff in its ICD/ Warehouse and that the data was collected from virtually all departments and therefore representative of the organizations position on credit policy and financial performance.

4.4. Credit standards and financial performance in Interfreight Ltd

The first objective of the study was to establish the relationship between credit standards and financial performance at Interfreight (U) Ltd. Credit standards was one dimensions of credit policy and had one indicator of credit analysis measured using 10 items scored on five point Likert scale of (5) for strongly agree (4) for agree, (3) for not sure (2) for disagree (1) for strongly disagree.

The study analyzed the credit standards in the logistics firm and the findings are displayed in table 6 below.

Tables 6: Descriptive results for credit standards

	Mean	Std. Deviation
Credit Analysis		
1. IF Uganda has a comprehensive credit policy on how to determine the credit worthy of clients who seek credit	3.93	1.073
2. IF Uganda regularly reviews its credit standard after an empirical analysis of the past borrowers credit performance	4.14	.920
3. IF Uganda regularly reviews its credit standard after an empirical analysis of the market conditions	2.11	1.120
4. IF Uganda credit standards are adequately tailored towards reducing the risk of not making credit payment	4.11	1.053
5. IF Uganda boosts of a competent credit team that reviews and takes decisions on credit applications	3.71	1.444
6. The responsible persons adequately assess the character of customers to establish their ability to make credit payments	2.32	1.263
7. The responsible persons in IF Uganda always use the credit applicants financial statements to establish the capital or financial position of customers to make credit payments	2.21	1.152
8. The responsible persons in IF Uganda adequately examine the client's cash flows to establish the client's capacity to make credit payments	2.25	1.129
9. IF always demands for collateral on all credit advances to help it collect bad debts if the customer fails to pay or liquidates his assets	3.46	1.357
10. Conditions or the sensitivity of the customer's ability to make credit payments based on the underlying economic and market factors is adequately explored to establish the client's capacity to make credit payments	2.07	1.073
Aggregated mean	***3.031***	***1.1584***

Source: Primary data

Table 6 above shows an aggregated mean of 3.031 with a standard deviation of 1.1584 suggesting that on average that the majority of respondents agreed on issues related to credit standards of the credit policy. The standard deviation ranged between 0.91 and 1.444 which suggested that the mean for each item did not deviate significantly from the normal mean.

The indicator of credit standards was credit analysis of which item 2 asked if IF Uganda regularly reviewed its credit standard after an empirical analysis of the past clients credit performance which received the highest mean of 4.11 followed by item 4 which asked if IF Uganda credit standards were adequately tailored towards reducing the risk of not making credit payment with a mean of 4.11. These findings suggested that as credit standard norm IF reviewed its credit standards and making the credit policies more responsive to mitigating default risk. The efforts to review the credit standards based on client previous credit performance and making them centered towards timely credit repayment should be commended as this enhances the effectiveness of the credit standards in ensuring credit payment and keeping of good client relationships.

However, item 3 which asked if IF Uganda regularly reviewed its credit standard after an empirical analysis of the market conditions received the lowest mean of 2.11 among the credit analysis items suggesting that market conditions were not necessarily considered in reviewing the credit standard. The failure to consider the market conditions in reviewing the credit standards weakens the effectiveness of the credit policy as it will not be responsive to the realities of the prevailing logistics market conditions on giving credit to clients. This material weakness of not considering market conditions in reviewing the credit policy if not addressed will continuously lead to offering of credit to clients who will default due to market failures and economic downturns.

The second indicator of credit standards was credit analysis and as shown in table 6 above, the respondents disagreed that the responsible persons adequately assessed the character of customers to establish their ability to make credit payments (Mean = 2.32) disagreed that the responsible persons at IF Uganda always used the credit applicants financial statements (Mean = 2.21) and cash flows (Mean = 2.25) while they also disagreed that conditions or the sensitivity of the customer’s ability to make credit payments based on the underlying economic and market factors was adequately explored (Mean = 2.07). The failure to adequately assess the financial statements, cash flows and sensitivity of the client to honor the payment in credit analysis revealed weaknesses which reduces the effectiveness of the credit policy in achieving its objectives there by constraining the achievement of the financial targets of the firm. It was necessary that financial statements, cash flows and sensitivity analysis are considered by the firm in its credit standard policy provisions for heath operations.

Asked about the challenges of the IF Uganda credit standards, interviewee A put it:

"*Sometimes when quoting I experience a challenge of establishing the credit worthiness of the client and I end up relying on the documents which act as the security. Some clients when cargo is in Kampala it is abandoned in the warehouse like the case of one Furniture company complicating the cash recovery process".*

Another interviewee B noted that:

"The standards are sometimes so lenient with some clients because you find that the MD is the one who secured business".

Asked to give recommendations for enhancing the credit standards of IF Uganda, interviewee A had this to say

"With the shipping industry it is hard to recommend how credit standards can be set however I would say we should not give credit of more than USD$50,000 to reduce the total risk exposure of bad payers".

Interviewee B had this to say on the recommendations:

"Sometimes I think business should not mix much with personal relationships when it comes to handling cargo using IF. There should be clear demarcations between the two."

The qualitative findings on credit standards acknowledge the existence of challenges related to credit analysis such as establishing the credit worthiness of the client, bending the credit policy due to personal relations even at the top management level who are responsible for ensuring policy compliance. The involvement of top management in granting credit needs to be checked by putting in place thresholds and management accountability in recovering credit approved on their personal relations with clients or decisions.

4.4.1. Correlation analysis between credit standard and financial performance

To test if there was a relationship between credit standard and financial performance, a correlation analysis was conducted using Pearson's correlation coefficient and significance at the 99 and 95 confidence limits (two tailed level) and the findings are presented below.

Table 7: Correlation matrix between credit standard and financial performance

		Credit Standards	Financial Performance
Credit Standards	Pearson Correlation	1	.327**
	Sig. (2-tailed)		.002
	N	84	84
Financial Performance	Pearson Correlation	.327**	1
	Sig. (2-tailed)	.002	
	N	84	84
**. Correlation is significant at the 0.01 level (2-tailed).			

$P \leq 0.05$

Source: Primary data

Table 7 shows the Pearson's correlation coefficient r = 0.327** between credit standards and financial performance of Interfreight suggesting that the two variables were found to be positively related. The r = 0.327** and significance p = 0.002 between credit standards and financial performance suggests that there was a moderate positive and significant relationship between credit standards and financial performance of the logistics firm. The implication was that observance of conducting of credit analysis as established in the company credit policy had a resultant positive association with financial performance in terms of increased cash flows, profitability, sustainability and revenue growth of the firm such that an improvement in one results in an improvement in the other.

The study therefore confirmed the hypothesis that there is significant relationship between credit standards and financial performance.

4.5. Credit terms and financial performance

The second objective of the study was to establish the relationship between credit terms and financial performance in IF Ltd. Credit terms was one dimensions of credit policy and had two indicators of credit period and cash Discounts or deterrents measured using 6 items scored on five point Likert scale of (5) for strongly agree (4) for agree, (3) for not sure (2) for disagree (1) for strongly disagree. The study analyzed the credit terms in the logistics firm and the findings are displayed in table 8 below.

Table 8: Descriptive results for credit terms

	Mean	Std. Deviation
Credit period		
1. The negotiations on monthly credit payments rations has been effective in ensuring credit payment by the clients	3.54	1.303
2. The negotiations on maximum time for credit payments has been effective in ensuring credit payment by the clients	3.71	1.340
3. There are clearly written credit payment terms and conditions for all credit to clients	3.54	1.384
Cash Discounts		
4. The efforts undertaken to negotiate the payment installment amounts has been effective in ensuring prompt credit payment by the clients	2.50	1.284
5. The efforts undertaken to offer credit discount to customers for early payment has been effective in ensuring prompt credit payment by the clients	2.25	1.096
6. The efforts undertaken to fine/penalize customers for late payment has been effective in ensuring prompt credit payment by the clients	2.21	1.213
Aggregated mean	***2.958***	***1.27***

Source: Primary data

Table 8 above shows an aggregated mean of 2.958 with a standard deviation of 1.27 suggesting that majority of respondents on average agree but with some deferments on some issues related with the items on credit terms at IF. The standard deviation ranged between 1.096 and 1.340 suggesting that the mean for each item did not deviate significantly from the normal mean.

One of the indicators of credit terms was the credit period and as indicated in table 8 above, item 2 which asked whether the negotiations on maximum time for credit payments had been effective in ensuring credit payment by the clients received the highest mean of 3.71. This finding suggested that a maximum credit period in the credit term encouraged clients to honor their credit payment obligation and should be emphasized in the awarding to credit. Similarly the respondents agreed that the negotiations on monthly credit payments rations has been effective in ensuring credit payment by the clients (Mean = 3.54). This finding suggested that the use of monthly installment if emphasized in the credit terms will go a long way to enhance the credit repayment in the logistics firm.

The second indicator of credit terms was the use of credit discounts and as shown in table 8 above, the respondents disagreed that the efforts undertaken to offer credit discount to customers for early payment was effective in ensuring prompt credit payment by the clients (Mean = 2.25) while they also disagreed that the efforts undertaken to

fine/penalize customers for late payment has been effective in ensuring prompt credit payment by the clients (Mean = 2.21). The implications of these findings were that if there was effort to incentives and deterrents to stimulate credit repayment, then they are not effective. On the other hand the findings implied that probably the company had not considered using incentives and deterrents in its credit terms. This study inferred that there was need to observe and use of calculated enforcement of deterrents conscious of customer retention in the highly competitive freight industry in Uganda.

Asked the challenges of the SPIF Uganda credit terms interviewee B put it:

"Just like the standards sometimes the credit terms are based on personal intuition of the person securing business. They can agree to give the client 30 or more days credit and then when cargo is released collecting is hard because they toss you around an the debt goes beyond the agreed terms especially the small client who ship in one by one containers but then have been somewhat regular clients with IF".

Interviewee A equally noted some challenges and had this to say:

"Some clients simply misuse the credit terms agreed with SPIF not because they do not have the funds but because they know the SPIF still has more of their cargo and sometimes the big bosses put in a hand since they might be friends and may be they have been with the company for a long time."

Interviewee A on recommendations for enhancing the credit terms of SPIF Uganda suggested:

"I think if we are to enhance the credit terms of IF we should not give credit to clients whose cargo value doesn't value more than USD$50,000. Such client should be on a cash basis or before release clients".

Interviewee B had this to suggest:

I think when setting credit terms the sales team and the bosses should not mix friendship with business and always should consider the fact that we require a healthy cash flow to take care of our daily operations, and unnecessary giving of credit can be a big deal here. Just one case in time, a top manager secured a book project to Sudan but the credit terms were all payment to be done after the completion of the Project which in this case will take one and half years and yet IF is incurring Huge costs to facilitate the project.

The interviewee findings suggest that although the maximum credit payment period was effective in ensuring payments, the company experienced challenges related to some customers exceeding the maximum debt period a term constraining the debt recovery. There was need to revisit the credit terms based on what the client had to pay other than straight offering of credit once asked by the clients as suggested by the interviewees.

4.5.2. Correlation analysis between credit terms and financial performance

To test if there was relationship between credit terms and financial performance a correlation analysis was conducted using Pearson's correlation coefficient and significance at the 99 and 95 confidence limits (two tailed level) and the findings are presented below.

Table 9: Correlation results between credit terms and financial performance

		Credit Terms	Financial Performance
Credit Terms	Pearson Correlation	1	.456**
	Sig. (2-tailed)		.000
	N	84	84
Financial Performance	Pearson Correlation	.456**	1
	Sig. (2-tailed)	.000	
	N	84	84
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Primary data

Table 9 above shows the Pearson's correlation coefficient r = 0.456** between credit terms and financial performance suggesting that the two variables were positively related. The r = 0.456** and significance p = 0.000 between credit terms and financial performance suggests that there was a moderate positive and significant relationship between credit terms and financial performance. The implication that an appropriate credit period coupled with the use of incentives and deterrents when established in the company credit policy will result into positive influence towards better financial performance in terms of increased cash flows, sustainability and revenue growth of the firm.

The study therefore confirmed the hypothesis that credit terms significantly influence financial performance.

4.6. Credit monitoring and financial performance in IF

The third objective of the study was to establish the relationship between credit monitoring and financial performance. Credit monitoring was one dimensions of credit policy and had two indicators of debtors Aging schedule and average collection period measured using 13 items scored on five point Likert scale of (5) for strongly agree (4) for agree, (3) for not sure (2) for disagree (1) for strongly disagree. The study analyzed the credit standards in the logistics firm and the findings are presented below.

Table 10: Descriptive results for credit monitoring

	Mean	Std. Deviation
1. IF has a comprehensive aged debtors information system designed for credit monitoring	4.32	.809
2. The credit monitoring debtors age list is well integrated with other financial management information systems in IF	4.18	.763
3. The credit data inputted in the credit information system is always accurate/reliable in portraying a true position of the credit status in the company	2.43	1.382
4. The credit monitoring information system produces accurate/ reliable credit aging reports	2.32	1.372
5. IF credit control team is adequately staffed to perform credit recovery operations	1.89	1.353
6. IF credit control team has an adequate budget to facilitate its credit recovery operations	1.79	1.019
7. IF credit control team has an adequate competencies and experience in credit recovery operations	3.86	.880
8. The use of call follow ups on creditor has been effective in enforcing payments	3.86	1.099
9. The use of client visits to enforce payments are been useful in ensuring that clients pay their credit	4.04	.950
10. The use of private debt collectors has been useful in collecting overdue accounts	2.75	.742
11. The use of litigation has been effective in recovering outstanding credit	2.71	.886
12. IF always benchmarks with other firms on loan monitoring and recovery best practices	1.75	.790
13. Management takes immediate action on the credit report recommendations	1.96	1.023
Aggregated mean	***2.91***	***1.005***

Source: Primary data

Table 10 above shows an aggregated mean of 2.91 with a standard deviation of 1.005 suggesting that respondents agree and as well as disagreed with the items on credit monitoring in IF. The standard deviation ranged between 0.790 and 1.372 which is narrow suggesting that the mean for each item did not deviate significantly from the normal mean.

The use of a debtors aging list in the credit monitoring policy considerations was one of the indicators and as shown in table 10 above, item 1 which asked if IF had a comprehensive information system designed for credit monitoring received the highest mean of 4.32 while they also agreed that the credit monitoring information system was well integrated with other financial management information systems in IF (Mean = 4.18). These findings revealed that IF had undertaken to deploy a credit monitoring MIS in the debtors age list and integrated it with the relevant users which should enhance credit monitoring as it provided access to credit data necessary for collection.

However, the respondents disagreed that the credit data inputted in the debtors age list was always accurate/reliable in portraying a true position of the credit status in the company (Mean = 2.43) while they disagreed that the credit monitoring information system in produces accurate/ reliable credit aging reports (Mean = 2.32), these findings suggested that the efforts to deploy credit monitoring information system were frustrated by cases of some unreliable/inaccurate data imputed into the system leading to generation of inaccurate/unreliable reports for management decisions making. The inaccurate data and reports not only constrain the recovery process but also the quality of financial report of the company. This needs management attention to check on the quality of data input in the system.

Average collection period was the second indicator of credit monitoring of which table 10 shows that item 9 which asked if the use of client visits to enforce payments was useful in ensuring that clients pay their credit received the highest mean of 4.04. Item 7 and 8 which asked if the credit control team had adequate competencies and experience in credit recovery operations and the use of call follow ups on creditor had been effective in enforcing payments both received a high mean of 3.86. These findings revealed that clients' visits, deployment of a competent and experienced credit team and clients call follow ups should be strengthened as they have been effective in credit recovery.

However, the respondents disagreed that the credit control team was adequately staffed to perform credit recovery operations (Mean = 1.89), disagreed that the credit control team had an adequate budget to facilitate its credit recovery operations (Mean = 1.79). The respondents further disagreed that IF always benchmarked with other firms on credit monitoring and recovery best practices (Mean = 1.75) while they also disagreed that Management took immediate action on the credit report recommendations (Mean = 1.96). These findings revealed that credit monitoring was constrained at the level of action taking due to understaffing of the credit unit, inadequate credit recovery resources, low management commitment to credit recovery and lack of benchmarking to establish industry best practices in credit monitoring.

Asked to give challenges of the IF Uganda credit monitoring, interviewee A noted:

These days we have been having system errors or breakdown and as such sometimes the Information system picks up figures of past years and reflects them as outstanding. The head office in Basel at times takes time in updating credits received and as such the debtors' ledgers are not up to date and by the time you resolve this issue time has gone. Secondly there are these abrupt charges from shipping lines in Mombasa and the other ports can be a bother and so client may hold payment until such issues which actually SPIF does not have control resolved.

Interviewee A further noted a challenge related to the credit team and put it:

When it comes to the credit team they have only one vehicle allocated to the department now if all of them want to move out for client visits it becomes a challenge. You may follow up with a client but the big man intervenes as request that you leave such a client they will talk to them and with their busy schedules it takes time.

Interviewee B had this to say on credit monitoring challenges:

At times the clients may be too many that one may end up forgetting about small clients as they try to secure payment from big clients. Also sometimes the system may be down and the CREs (Customer Relations Executives) can raise wrong charges to clients and at times this may not be detected by the credit team and by the time its seen the invoice is already over due.

Interviewee A on recommendations for enhancing the credit monitoring in SPIF Uganda suggested:

The credit department activities should be Independent fully without any interference from management.

Interviewee B had this to suggest:

I think the team should have a work plan on a weekly basis to know which client will be contacted during that period. Secondly, the invoicing should be centralized and done by an independent department who should have access to Quotations given that guide then when invoicing.

The interview findings point to constraints in the credit monitoring related the data inputted in the credit information system, understaffing and inadequate facilitation of the operations of the credit team which if not addressed adversely affects the effectiveness of the credit policy in SPIF.

4.6.1. Correlation analysis between credit monitoring and financial performance

To test if there was relationship between credit monitoring and financial performance a correlation analysis was conducted using Pearson's correlation coefficient and significance at the 99 and 95 confidence limits (two tailed level) and the findings are presented below.

Table 11: Correlation results between credit monitoring and financial performance

		Credit Monitoring	Financial Performance
Credit monitoring	Pearson Correlation	1	.4470**
	Sig. (2-tailed)		.000
	N	84	84
Financial Performance	Pearson Correlation	.470**	1
	Sig. (2-tailed)	.000	
	N	84	84
**. Correlation is significant at the 0.01 level (2-tailed).			

Source: Primary data

Table 11 above shows the Pearson's correlation coefficient r = 0.470** between credit monitoring and financial performance suggesting that the two variables were positively related. The r = 0.470** and significance p = 0.000 between credit monitoring and financial performance suggests that there was a moderate positive and significant relationship between credit monitoring and financial performance. The implication was that the use of an integrated debtor aging schedule in credit monitoring and average collection period by the responsible persons as established in the company credit policy has a resultant positive contribution to increased cash flows, sustainability and revenue growth of the firm.

4.7. Multiple Regression Results

The purpose of the study was to examine the extent to which credit policy impacted financial performance of Interfreight Uganda. A multiple regression was undertaken helps understand how the typical value of the financial performance changes if one of the independent variables is varied, while the other independent variables are held fixed(Aldrich, 2005). Furthermore, the multiple regression analysis was also used to describe the impact of credit standards, terms and monitoring on financial performance and to identify which among the independent variables was a more significant predictor of the variance in the financial performance of the logistics firm and to explore the forms of these relationships (Freedman, 2005) and the results are presented below.

Table 12: Multiple regression results between credit policy and financial performance.

Adjusted R^2 = 0.326		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta(β)		
	(Constant)	1.249	.366		3.414	.001
	Credit Standards	.159	.087	.174	1.833	.050
	Credit Terms	.224	.075	.293	2.975	.004
	Credit Monitoring	.385	.109	.340	3.537	.001

a. Dependent Variable: Financial Performance
b. Independent: credit standards, terms and monitoring

Source: Primary data

Table 12 above shows an adjusted R^2 value of 0.326 between credit policy dimensions of credit standards, terms and monitoring suggesting that credit policy predicted 32.6% of the variance in financial performance in Interfreight while other variable predicted the remaining bigger variance of 67.4% of the variance in the financial performance in the firm. The credit monitoring dimensions of the credit policy was a more significant predictor of the variance in financial performance of Interfreight ($\beta = 0.340$, $t = 3.537$, and sig = 0.001). This was followed by credit terms ($\beta = 0.293$, $t = 2.975$, and sig = 0.004). Credit standards although the least credit policy predictor, it was never the less a significant predictor of the variance in financial performance of the firm ($\beta = 0.174$, $t = 1.833$, and sig = 0.050). This study therefore inferred that strengthening the credit policy monitoring practices in the firm should be given primary priority as it yields higher financial performance results. Enhancing the credit terms and standards should equally be given priority as they significantly contribute to financial performance of the firm.

The study therefore confirmed the hypothesis that Credit monitoring significantly influences the financial performance.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary, discussion, conclusions and recommendations of the study on credit policy and financial performance. The first section presents a summary of the study findings in relation to the specific objectives. This is followed by a discussion, conclusion, and recommendations of the study in relation to the objectives of the study. Limitations of the study, contributions of the study and recommendations for further studies are equally presented.

5.2 Summary of the study findings

This sub section presents a summary of the study findings on the relationship between credit policy and financial performance of firms in the logistics industry in Uganda.

5.2.1. Credit standards and financial performance

The study found a moderate positive and significant relationship between credit standards and financial performance of the firm suggesting that conducting of credit analysis as established in the company credit policy has a resultant positive contribution to increased cash flows, sustainability and revenue growth of the firm. The multiple regression results revealed that credit standards were the least significant predictor of the variance in financial performance in this study although majority of the respondents agreed on issues related to credit standards in the credit policy.

5.2.2. Credit terms and financial performance

The study found a moderate positive and significant relationship between credit terms and financial performance of the logistics firm suggesting that an appropriate credit period coupled with the uses of incentives and deterrents when established in the company credit policy has a resultant positive contribution to increased cash flows, sustainability and revenue growth of the firm. The multiple regression results revealed that credit terms were the second significant predictor of the variance in financial performance as a considerable number of respondents strongly agreed that if discounts are given clients endeavor to pay on time s that they take advantage of the discount offered by the firm.

5.2.3. Credit monitoring and financial performance

The study found a moderate positive and significant relationship between credit monitoring and financial performance of the logistics firm suggesting that an appropriate debtors aging schedule in the credit information system coupled with the an average collection period when properly established in the company credit policy has a resultant positive contribution to increased cash flows, sustainability and revenue growth of the firm. The multiple regression results revealed that credit monitoring was the highest significant predictor of the variance in financial performance. This was a result of a very high number of respondents agreeing to the fact that regularly reviewing the debtors age list, making clients visits, constant phone calls and emails to collect debts had positively had a significant impact of the cash flows of the firm.

5.3 Discussion of the study findings

This sub section presents the discussion of the study findings on the relationship between credit policy and financial performance in relation to the literature review.

5.3.1. Credit standards and financial performance

The study found credit standards moderately influenced the financial performance of the logistics firm suggesting that credit standards have a significant relationship with financial performance of the firm and if not appropriate significantly constrain the achievement of the expected financial performance. This was arrived at as most on the respondents agreed to IF having a comprehensive credit analysis of credit applicants. This study finding and position on the relationship between credit standards and financial performance in IF relate to a great extent to the Goldratt (1990) TOC assertion that a system constraint is defined as anything like a policy that significantly prevents a system from improving its performance towards that goal.

The study found that cases of non compliance to credit analysis as prescribed in the company policy constrained credit recovery in the logistics firm. Petrie (2006) too had earlier reported similar experiences and noted despite the widely accepted importance of credit analysis, variance in the credit analysis process is common and arises from lenders often getting the credit into the queue as rapidly as possible with less-than-adequate information with likelihood for errors, inconsistencies, or oversights in the analysis. This study therefore inferred that an enabling credit standard providing for appropriate credit analysis was necessary for a health financial performance of the logistics provider.

5.3.2. Credit terms and financial performance

The study found credit terms moderately influenced financial performance of the logistics firm suggesting that an appropriate credit terms has a significant relationship with financial performance of the firm. The implication was that the inappropriate credit terms constrain the achievement of projected financial expectations of a logistics service provider and vice versa. This study finding and view point is supported by the Goldratt (1990) TOC assertion that a system constraint is defined as anything and this case a policy mechanism that significantly prevents a system from improving its performance towards that goal.

5.3.3. Credit monitoring and financial performance

The study found that credit monitoring had a moderate significant relationship with financial performance of the logistics firm suggesting that credit monitoring significantly influenced the financial performance of the firm and if not well executed will constraint the performance of the firm. This study findings and observation is in consonant with the Goldratt (1990) TOC assumption that a system policy or behavior constraint significantly prevents a system from improving its performance towards that goal.

In support of the need for effective credit monitoring and sustained firm performance Kakuru, (2003) contends that a firm should have a well organized credit monitoring process to reap financial benefits averting the prevalence of payment defaults. Kirkman (1997) too noted that extension of credit decisions should be coupled with the establishment of proper collection strategies, to avert liquidity shortfalls. Collections of receivables have to have predetermined guidelines, procedures and actions for implementation (Lawrence, 1998).

The works of Blackman et al. (2013) concludes this sub section and supports the use of MIS in credit monitoring in a global supply chain and posits that terms related to physical product, information systems and financial flows need to be closely aligned with to meet the performance expectations of the lending firm. This study therefore affirmed that the material weaknesses in credit monitoring arising from the use of credit monitoring MIS and action taking need to be effectively addressed if logistics firms are to achieve financial performance expectations.

5.4 Conclusions of the study findings

This sub section presents the conclusions of the study findings on the relationship between personnel training, internal systems, company processes and fraud management based on the study finding and discussion above.

5.4.1. Credit standards and financial performance

The study concluded that compliance to credit standards of credit norms and credit analysis as established in the company credit policy if adhered to significantly contribute to firm performance by improving in the firm's cash flows, sustainability and revenue growth. Therefore a credit standard as established in the credit policy if not well founded constrains the financial performance of the firm.

5.4.2. Credit terms and financial performance

The study concluded that issuance of appropriate credit periods and use of credit payment compliance incentives and deterrents to customers contribute to a health cash follow, financial sustainability and revenue growth thereby contributing to financial performance of the firm. It is necessary that the company stakeholders issue responsive credit periods, incentive and deterrent to foster health financial performance in the firm.

5.4.3. Credit monitoring and financial performance

The study concluded that the use of an appropriate credit management information system coupled with management acting on the credit reports and recommendations are necessary for enhanced cash follow, financial sustainability and revenue growth thereby contributing to financial performance of the firm.

5.5 Recommendations of the study findings

This sub section presents the conclusions of the study findings on the relationship between personnel training, internal systems, company processes and fraud management based on the study finding and discussion above.

5.5.1. Credit standards and financial performance

To enhance financial performance of the firm, the study recommends that the management of Interfreight should strengthen the credit norms by regularly reviewing its credit standard after an empirical analysis of the market conditions. This should be complemented with instituting credit analysis standards demanding that responsible persons adequately assess the character of customers to establish their ability to make credit payments, always referring to the credit applicants financial statements to establish the capital or financial position of customers to make credit payments and adequately conducting credit sensitivity analyses through exploring customer's ability to make credit payments based on the underlying economic and market factors.

5.5.2. Credit terms and financial performance

To enhance financial performance of the firm, the study recommends that the management of Interfreight should institute appropriate credit payment incentives and deterrents by negotiate the payment installment amounts, credit discounts, fines and penalties in the credit contracts/agreements with clients.

5.5.3. Credit monitoring and financial performance

To enhance financial performance of the firm, the study recommends that the management of Interfreight should upgrade and integrate the credit management information system tofoster capturing of quality/accurate/reliable credit data and associated aging reports. This should be complemented by management commitment to taking of the necessary actions on the credit reports and recommendations through adequate staffing of the credit team and allocations of adequate budgets for credit recovery unit. Benchmarking with other firms on credit monitoring and recovery best practices is equally recommended.

5.6. Limitations of the study

The study relied on primary data collected using a standardized questionnaire and interview guide without use of secondary data to triangulate and enhance the data quality. Similarly, the study collected data from one international logistics firm SPIF which limits the generalization of the study findings to other logistics firms.

5.7. Contributions of the study

The study has helped develop credit policy managerial and operational recommendations necessary for a health financial performance requiring the strengthening and compliance to the company credit standards, terms and monitoring. Similarly, the study has also helped cover literature gaps by providing empirical evidence on the relationship between credit policy and financial performance.

5.8. Recommendations for further studies

The study found out that credit policy dimensions of credit standards, terms and monitoring although a significant predictor, they predicted only 32.6% of the variance in financial performance of the firm while other variable predicted a bigger part of 67.4% of the variance in the financial performance of the firm. Other studies need to examine the effect of cost management, working capital management and performance management policies on the financial performance of the firm in selected logistics firms of Uganda.

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APPENDIX I: CREDIT POLICY AND FINANCIAL PERFORMANCE OF FRIMS IN THE LOGISTICS SECTOR IN UGANDA QUESTIONNAIRE

I am a master's student seeking to establish whether credit policy impacts on financial performance. Various questions have been asked with alternative answers so please mark the most appropriate ones. Your response will be treated with utmost confidence.

SECTION A: PERSONAL INFORMATION

1. My age in years	Between 18-25 Between 26 -30 Between 31 -40 Between 41-45 Between 46 and above	1 2 3 4 5
2. My Highest level of education	Diploma Graduate Masters PhD Professional qualification	1 2 3 4 5
3. Time worked with SPIF	Below five years 5-10 years 10-15 years 15 years and above	1 2 3 4
4. My job category	Management Accounts Department Commercial Department ICD / Warehouse Dep't Sales &Marketing	1 2 3 4 5

SECTION B: CREDIT POLICY

Instruction; tick (√) on the scales of 1-5 how strongly you agree or disagree with the statements given.

Scale	5	4	3	2	1
	Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree

Credit Standards	**5**	**4**	**3**	**2**	**1**
	SA	**A**	**NS**	**D**	**SD**
1. IF Uganda has a comprehensive credit policy on how to determine the credit worthy of clients who seek credit	5	4	3	2	1
2. IF Uganda regularly reviews its credit standard after an empirical analysis of the past borrowers credit performance	5	4	3	2	1
3. IF Uganda regularly reviews its credit standard after an empirical analysis of the market conditions	5	4	3	2	1
4. IF Uganda credit standards are adequately tailored towards reducing the risk of not making credit payment	5	4	3	2	1
5. IF Uganda boosts of a competent credit team that reviews and takes decisions on credit applications	5	4	3	2	1
6. The responsible persons adequately assess the character of customers to establish their ability to make credit payments	5	4	3	2	1
7. The responsible persons in IF Uganda always use the credit applicants financial statements to establish the capital or financial position of customers to make credit payments	5	4	3	2	1
8. The responsible persons in IF Uganda adequately examine the client's cash flows to establish the client's capacity to make credit payments	5	4	3	2	1
9. IF always demands for collateral on all credit advances to help it collect bad debts if the customer fails to pay or liquidates his assets	5	4	3	2	1
10. Conditions or the sensitivity of the customer's ability to make credit payments based on the underlying economic and market factors is adequately explored to establish the client's capacity to make credit payments	5	4	3	2	1
CREDIT TERMS					
1. The negotiations on monthly credit payments rations has been effective in ensuring credit payment by the clients	5	4	3	2	1
2. The negotiations on maximum time for credit payments has been effective in ensuring credit payment by the clients	5	4	3	2	1

3. There are clearly written credit payment terms and conditions for all credit to clients	5	4	3	2	1
4. The efforts undertaken to negotiate the payment installment amounts has been effective in ensuring prompt credit payment by the clients	5	4	3	2	1
5. The efforts undertaken to offer credit discount to customers for early payment has been effective in ensuring prompt credit payment by the clients	5	4	3	2	1
6. The efforts undertaken to fine/penalize customers for late payment has been effective in ensuring prompt credit payment by the clients	5	4	3	2	1
CREDIT MONITORING					
1. IF has a comprehensive information system designed for credit monitoring	5	4	3	2	1
2. The credit monitoring information system is well integrated with other financial management information systems in IF	5	4	3	2	1
3. The credit data inputted in the credit information system is always accurate/reliable in portraying a true position of the credit status in the company	5	4	3	2	1
4. The credit monitoring information system in IF produces accurate/ reliable credit aging reports	5	4	3	2	1
5. IF credit control team is adequately staffed to perform credit recovery operations	5	4	3	2	1
6. IF credit control team has an adequate budget to facilitate its credit recovery operations	5	4	3	2	1
7. IF credit control team has an adequate competencies and experience in credit recovery operations	5	4	3	2	1
8. The use of call follow ups on creditor has been effective in enforcing payments	5	4	3	2	1
9. The use of client visits to enforce payments are been useful in ensuring that clients pay their credit	5	4	3	2	1
10. The use of private debt collectors has been useful in collecting overdue accounts	5	4	3	2	1
11. The use of litigation has been effective in recovering outstanding credit	5	4	3	2	1
12. IF always benchmarks with other firms on loan monitoring and recovery best practices	5	4	3	2	1
13. Management takes immediate action on the credit report recommendations	5	4	3	2	1

SECTION C: FINANCIAL PERFORMANCE

FINANCIAL PERFORMANCE	**5**	**4**	**3**	**2**	**1**
	SA	**A**	**NS**	**D**	**SD**
1. IF cash earnings have improved	5	4	3	2	1
2. IF boosts of a stable working capital	5	4	3	2	1
3. The Net debt of IF Uganda has been kept at the minimum	5	4	3	2	1
4. Credit right off have been kept low at the minimum	5	4	3	2	1
5. IF Uganda had adequate funds to commit on capital expenditure	5	4	3	2	1
6. IF Uganda can depend on its own to meet all its operating costs from its revenues	5	4	3	2	1
7. IF Uganda is in position to generate a net income	5	4	3	2	1
8. IF Uganda has achieved financial self-sufficiency	5	4	3	2	1
9. IF recorded a reasonable growth in its revenue for the first quarter in the last financial year	5	4	3	2	1
10. IF recorded a reasonable growth in its revenue for the second quarter in the last financial year	5	4	3	2	1
11. IF recorded a reasonable growth in its revenue for the third quarter in the last financial year	5	4	3	2	1
12. IF has generally recorded an annual increase in its sales revenue	5	4	3	2	1

APPENDIX II: INTERVIEW GUIDE FOR COMMERCIAL MANAGER AND FINANCIAL CONTROLLER

1. What are the challenges of the IF Uganda credit standards?
2. What are your recommendations for enhancing the credit standards of IF Uganda?
3. What are the challenges of the IF Uganda credit terms?
4. What are your recommendations for enhancing the credit terms of IF Uganda?
5. What are the challenges of the IF Uganda credit monitoring?
6. What are your recommendations for enhancing the credit monitoring in IF Uganda?

APPENDIX III: TABLE FOR DETERMINING SAMPLE SIZE FROM A GIVEN POPULATION

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: "N" is population size
"S" is sample size.

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