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Credit Management and Financial Performance in Private Limited Liability Companies: A Case Study of Mabugu General Stores (U) Limited

The research study was carried out to establish the role of credit management in the financial performance of private limited liability companies focusing on Mabugu General Stores (U) Limited as a case study. The objectives of the study were: To find out the credit management system in Mabugu General Stores (MGS), to find out the challenges of credit management in MGS and, to establish the role of credit management in financial performance. Given these objectives, the researcher employed the following research questions; what were the credit management systems used in MGS? What were the challenges of credit management system in MGS? And what was the role of the credit management system in financial performance? The research design was a cross-sectional survey which was both qualitative and quantitative; and was used to collect data in order to establish the role of the variables under study. The study employed both primary and secondary data collection methods covering a study population of 50 but concentrated on a sample size of 44 respondents who were selected using both purposive and simple random sampling techniques in order to minimise biased results. Self-administered questionnaires, documentary evidence and an interview guide were the main research instruments of the study employed. The data collected were analysed using the Statistical Package for the Social Sciences (SPSS) which included table frequencies, correlation, regression model and ANOVA to establish the relationship between credit management and financial performance. The findings of the study revealed that: MGS uses credit standards, credit terms and collection policy procedures to manage its debts, costs and benefit implications were also experienced. MGS has procedures to follow when collecting debts and they were effective and efficient. The results revealed that there is a significant and positive relationship between the existence of the credit management system and financial performance in MGS ($r=0.461$, $P<0.021$). The Adjusted R² was 0.154. There was a positive relationship between the challenges in the credit management system on financial performance in MGS. The model summary yielded $r=0.583$, $P<0.001$. The Adjusted R² was 0.291, implying that the independent variable contributes 29.1% to MGS financial performance. There was also a positive relationship between the current credit management system and financial performance in MGS ($r=0.418$, $P<0.051$). The Adjusted R² was 0.113, implying that the independent variable contributes 11.3% to MGS financial performance. Therefore, the researcher recommends redesigning a credit policy that minimises costs associated with credit while maximising benefits; strengthening procedures for collecting debts; cash discounts should be used to lure debtors to pay in time and; further research studies should be conducted specifically investigating more on other variables affecting debt collection performance other than credit policy.

Key words: Credit, Financial, Management, Performance, Private, Liability