1.0 INTRODUCTION

1.1 Purpose and Significance of the Study

Since the economic turmoil in 1997 which followed from the sharp depreciation of the Thai baht on 2 July 1997 which rippled through the banking and corporate sector (Bank Negara Malaysia, 1999), much attention has been diverted to address the external factors such as currency crisis which is beyond our control. Most business failures have been blamed on such factors. As in the banking sector, uncollectible and slow debts are also piling up in the commercial sector including public listed companies. What are the precautionary measures and internal controls that can minimise such debtors exposures?

This study will review the practical applications of the Malaysian Management Accounting Guideline (MMAG) No. 3 - Accounts Receivable Management issued by the Malaysian Institute of Accountants (MIA) and will look into the existing credit control policies and procedures practiced by three Kuala Lumpur Stock Exchange (KLSE)-listed companies in Malaysia and benchmarked against one unlisted company.

The survey would, among others, study the extent of -

1. the existence of independent credit control department in the companies,
2. the usage of credit search facilities for third-party source of credit information,
3. the time lag in issuing invoices after delivery and the mailing of the end-month statement of accounts,
4. the proper formulation of credit policy and procedures,
5. the usage of information technology (IT) in credit control and debtors management,
6. the use of third-party debts collection agency,
7. the usage of factoring facility,
8. the credit documentation for credit application, processing and monitoring.

This study would explore whether the statement that "there is probably no more neglected area of financial management in the UK than credit control credit control and management" as published by the British Institute of Management in 1974 in a survey of credit control and practices (R.M.V Bass, Credit Management Handbook, 1976), is applicable on the selected Malaysian companies in this study.

1.2 Research Questions

A survey questionnaire, as appended in Appendix I containing 33 questions pertaining to debtors management and credit control practices in Malaysia were developed under the following captions:

- **Section A** - Set-up of Credit Control Department
- **Section B** - Respondent's Profile
- **Section C** - Debtors Management
- **Section D** - Credit Policy and Practices
- **Section E** - Credit Application and Review

2
The survey questionnaire was electronically-mailed (e-mail) to all listed companies in the Kuala Lumpur Stock Exchange (KLSE) that are categorised under the Trading and Services, Consumer Products and Industrial Products sectors and which have web sites linked to the KLSE web site. Reply are received via e-mail or via telefax or by mail. In addition, a large and established trading company (not public-listed) in building materials has been selected from the earlier pilot survey questionnaire response to be used as comparisons and benchmarks against the practices of the KLSE-listed respondent companies.

1.3 Scope of the Study

The study would cover debtors/accounts receivable management and credit control practices in Malaysia for non-financial institutions. As such, financial services counters such as banks, finance companies, unit trust or property trust companies, insurance companies have been excluded. Financial institutions mainly dealt with credit risks and as such, credit control practiced by the financial institutions are adequately dealt with in Malaysia.

Emphasis is placed on the application of the credit policy and practices by non-financial institutions, especially in the area of:-

- Credit control department set-up
- Credit, collection and financing policies
- Credit control evaluation
- Credit control documentation
Companies listed under the KLSE trading and services, consumer products and industrial products sectors were selected as these sectors represent bulk of the suppliers credit in the Malaysian economy. Property based companies, hotels and construction companies have been excluded.

1.4 Limitations of the Study

This study does not cover the debts recovery and legal recovery of debts aspects. This study only covers the credit control and debtors management from the pre-approval of credit accounts stage to the monitoring of accounts receivable stage. This study does not touch on the roles of Pengurusan Danaharta Nasional Berhad (Danaharta) and Corporate Debt Restructuring Committee (CDRC) in debts recovery and restructuring as this study is mainly on non-financial institution credits, i.e. suppliers' credit.

Furthermore, respondents are selected companies listed on the trading and services sector, consumer and industrial products sector of the KLSE and e-mailed to those companies with their web-sites linked to KLSE web site. As such, not all the companies are chosen for this study.

In addition, as anticipated, the response from the circulated survey questionnaire was very low with only three responses and as such, the results of the survey would not representative of the population as a whole. A more effective approach was used in this study where detailed analysis of the credit control and management practices of the three KLSE-listed companies respondents and
wherever applicable, a benchmark comparison would be made to the unlisted company's practices.

1.5 Organisation of the Study

This study would mainly covers the literature review on credit control and accounts receivable management with the emphasis on the review of existing practices in some companies in Malaysia.

Guidelines such as the MMAG 3 on Accounts Receivable Management issued by the MIA and which is actually taken from the Management Accounting Guidelines No. 8 – Accounts Receivable Management issued in 1990 by the Society of Management Accountants of Canada and local available publications were extensively reviewed.

As responses to the survey questionnaire was poor, in-depth review on each of the respondents on their credit control practices and debtors management and comparisons with each companies' practices was carried out to provide insight as to the practices in Malaysia. Discussions and interviews with the respondents of the survey, the providers of credit searches, factoring services and debt collection agencies have been performed and information obtained are analysed further and attached in the appendices which may be used to undertake further researches and studies. Finally, sample documentation for credit control are proposed for implementation.