

### 3.0 RESEARCH METHODOLOGY

#### **3.1 Exploratory Study**

This study would explore the present debtors management and credit control policy and practices of the respondent companies which are listed on the Kuala Lumpur Stock Exchange to find out whether the respondent companies have formal debtors management and credit control policy and procedures.

Part of the qualitative criteria for listing on the KLSE is the quality of management. Management encompasses wide facets of functions such as sales and marketing management, human resource management, financial management, production & operations management, etc. Financial management would encompass, inter alia, accounting, treasury and banking, working capital management – **debtors management**, creditors management and stock management. As such, the Securities Commission (SC) ought to have evaluated these criteria prior to giving approval to listing application.

Due diligence review prior to listing submission normally covers the collectibility review on the recovery of debtors. Unlike ISO certification where adequacy of the systems and procedures and compliance with the systems' policy and procedures, due diligence review does not cover the adequacy review of the credit policy and procedures to ensure the viability of the companies. The due diligence covers the past and not the future nor the existing systems in the view of long-term going concern of the company.

### **3.2 Selections of Measures**

Survey questionnaire was used to gather information on the debtors management and credit control of selected companies listed on the KLSE. Survey questions were designed to obtain responses that can be used to find out whether the respondent companies have formal debtors management and credit control policy, procedures and practices using the measures :

1. Respondent companies have independent credit control department.
2. Respondent companies are utilising available credit search facilities to obtain third-party source of credit information.
3. Respondent companies are prompt in issuing invoices after delivery and the mailing of the end-month statement of accounts.
4. Respondent companies have formal written credit policy and procedures.
5. Information technology (IT) was normally used in credit control and debtors management of the respondent companies.
6. Respondent companies do not use third-party debts collection agency.
7. Factoring facility is not widely used by respondent companies.
8. Respondent companies have proper credit documentation for credit application processing, control and monitoring.

The sample survey questionnaire is attached in Appendix I.

### 3.3 Sampling Design

There is a population of more than 500,000 companies registered with the Registrar of Companies (ROC) in Malaysia at present, out of which 786 are listed on the KLSE (Main Board and Second Board) as at 21 August 2000 as shown in Appendix II. These listed companies are being looked up to as the mainstay of the Malaysian business sector that have achieved certain performance (e.g. measured in terms of profitability and business prospects, etc.) and, among others, management capability.

Listed companies are being selected to be used as respondents to the survey questionnaire as being public-listed companies with public accountability, it was hoped that they would participate in this study.

As this research topic is mainly applicable to non-financial institutions/companies which offer sales on credit, companies listed under the following sectors of the Main and Second Boards were short-listed to be used as this study sample :

<u>Number of Companies</u>	<u>Main Board</u>	<u>Second Board</u>	<u>Total</u>	<u>% of KLSE</u>
• Consumer products	56	62	118	15.0%
• Industrial products	102	144	246	31.3%
• Trading/Services	87	71	158	20.1%
Total as at 21/8/2000	245	277	522	66.4%

Table 1 : The Number of Companies Listed Under Consumer, Industrial and Trading/Services Sector

In exploratory study, survey questionnaire was sent only via electronic mail(e-mail) to the companies listed under the above short-listed sectors. As such, the sample selection was further reduced to companies with their web-sites linked to KLSE web-site at <http://www.klse.com.my> as not all the shortlisted companies in the above sectors have such links to KLSE. A total of 100 companies in these three sectors with their websites linked to the KLSE website and with their e-mail address made available, were given the survey questionnaire via e-mail for reply by 15 August 2000.

### **3.4 Data Collection Procedure**

The survey results are collected via e-mail reply or via fax. No response have been received via mail as yet. Respondents are given two weeks to reply and after the deadline, a reminder with survey questionnaire attached was e-mail again for those who did not response to enable them to participate in the survey. All queries and clarifications regarding the survey questionnaire are immediately attended to, using e-mail and telephone. Further information were obtained via interviews and obtaining financial data from their web-sites and annual reports.

### **3.5 Data Analysis Techniques**

It was earlier planned to use SPSS software for data analysis. However, owing to low response rate and the nature of this study which is more of comparative study among companies, standard editing and coding procedures was utilised

and simple tabulations were used to analyse all the responses. Owing to very low response rate, the sample could not be taken as to represent the population.

Detailed analysis and discussion on the three responses were performed and benchmarked against one unlisted company's responses, to the extent possible, where :

- all the three respondents' accountants who are also heading the credit section/department of their companies were being interviewed to seek clarifications on their responses and at the same time to seek further explanations on their debtors management and credit control practices.
- Gaining insights on the organisation of the credit department of the respondent companies.
- Gaining insights into the practices of credit management and documentation of the three respondent companies.
- The extent of reliance on one single largest customer as a percentage of each company's turnover.

As such, this study would specifically be based on the debtors management and credit control policy, procedures and practices of the three respondent companies that responded to the survey which have been switched to case study approach for in-depth analysis.