

# **Chapter 1**

## **Introduction**

This chapter comprised of five sections (1) Overview of the Research (2) The Background of the Research (3) Problem Statement (4) Research Questions (5) Objectives of the Study (6) Scope of the Study and (7) A guide to the remaining chapters of this research.

### **1.0 Overview of the Research**

The current financial crisis has shaken the whole financial market and profoundly affected the global economy. With latest growth figures casting a shadow over the economic recovery and economists warning of along, hard slog ahead, firms would be wise to keep a tight rein on cash management as we move through 2011. Reducing debtor days is one way in which firms can increase cash at hand and reduce their reliance on bank lending. During the past 18 months the industry has shown signs of moving in the right direction, with many firms reducing their debtor days from around 140 to 95 days. However, there are further steps that could be taken to ensure collections remain under control.(Jane Garvin, legalweek.com)

This study will review the existing credit control policy and procedures of Engtex Group Berhad. This study would include the extent of the existence of credit control department and the effect of the employee development and motivation of the credit control staff on an effective and efficiency credit control management. This study also included the usage of the information technology in credit control like using an intelligence collection system to monitoring their debtor and all the receivables of the

company.

### **1.1 The Background of the Research**

Credit Control is a vital part of running of any business and industry. It's is also important especially in any new business with limited cash resources. A good credit control management is very important for a company to manage their customer purchases and debts. Credit control management is inclusive of all the transactions starting from the sale to the collection of the final payment from the customer. (Norris O. Johnson, December 28, 1951)

Cash flow of a company is like the life blood of every business. Poor credit control management will badly affect the cash flow of the company and its ability to repay the debts to their creditors and bankers. As such, poor credit control management will make the company increase of bad debt and its can also increase of the amount of interest that the company has to pay to the creditors or bankers, shrink profits and ultimately the business will close the door and cease operation due to insufficient of cash flow. (Norris O. Johnson, December 28, 1951)

Offering credit to customer is sometimes a necessary part of making a sale but it may cause the customers take advantage on it. This matter will become a major impact on cash flow of the company which incidentally is life blood of the business and could ultimately lead to the business crashing and deteriorating to a half of the whole business. The cash flow problems are responsible for causing over 50% of businesses to fail within their first year since commencement. Finally, it is a main reason for the business become failure.

In this recent century, offering credit becomes a fact of life in many industries. By not offering credit, the company may lose customers to their competitors who do offer credit and it could be jeopardize the business success. As such, credit control management has played a very important role for all the businesses in order to ensure that all the debt of the company must be collected promptly. A good credit control management also will help the company to keep track of the credit granted to their customers in order to minimize the risks and maximize the chances of prompt collection from their customers. (John Davies, Aug 11, 2011)

### **1.2 Problem Statement**

Credit control and debtor management is important for a successful company. However, there are some companies still unable to monitor their debtor receivable and bad debts effectively and it causes the companies facing cash flow problem and finally the business has been ceased operation.

This study will study about the factors that can affect the effective and efficiency of a credit control and debtor management of Engtex Group Berhad. It will further explain about the reasons of how some of the firms can achieve the higher performance and obtained higher profit, while others failed to achieve the higher performance/profit.

### **1.3 Research Questions**

Based on the above statement of problems, this research reveals several factors or variables that can associate with effective and efficiency of credit control and debtor management. It will address the following questions:

1. The effect of a credit control policy and procedures on effective and efficiency of credit control and debtor management.
2. The effect of employee development and motivation on effective and efficiency of credit control and debtor management.
3. The effect of an intelligence collection system on effective and efficiency of credit control and debtor management.
4. The effect of comprehensive collection report on effective and efficiency of credit control and debtor management.

Engtex Group Berhad begins with the incorporation of Engtex Sdn. Berhad in Malaysia on 31<sup>st</sup> December 1983. It is a listed company in KLSE since year 2002. The company started off with a humble beginning as a hardware retail shop located in Jalan Ipoh, Kuala Lumpur. Together with the rapid development in Malaysia, the company has made tremendous progress to become a diversified multi-million integrated wholesale and distribution center with its own warehouses and distribution network. The huge distribution network is supported by companies under the Group as they had been specifically incorporated to cater either to a specific geographical location or sector. Together with a proven supply chain management record, Engtex Group Berhad poised to be the leading one-stop solution provider for pipes, valves and fittings in Malaysia.

Engtex Group Berhad has generated a revenue of RM599 million and RM680 million for the year 2009 and 2010 respectively. This company has recorded a net profit

of RM22 million and RM34 million for the year 2009 and 2010 respectively.

#### **1.4 Objectives of the study**

The objective of credit control management is to make proper channel to execute the customer order from Production to invoicing and ends with collection of payment bearing in mind the achievement of the customer's satisfaction as among the output. A good credit control management will also can enhance the effectiveness and efficiency of the debt collection and debt recovery processes.

Credit control management can assist a company to mitigate the risk of defaulting trade debtors and delinquent credit accounts. Credit control management can minimize the risk and bad debts during offered a credit account to the customers. Meanwhile, credit control management also help the company to monitor compliance to approve term and condition agreed to trade debtors. The credit limits and terms must be decided and approved under in an appropriate limits and terms to the customers.

#### **1.5 Scope of the Study**

This study covers the credit control and debt management for Engtex Group Berhad. Engtex Group Berhad is mainly dealt with credit risk. Henceforth, the credit control management practiced by them is adequately dealt with in Malaysia.

This study also covers the whole credit control and debt management of Engtex Group Berhad especially in the area of credit control policy and procedures, employee development and motivation, intelligence collection system and comprehensive collection report.

A good credit control management has to assess the creditworthiness of the

prospective and existing customers in order to ensure that all the credit sales are granted to the creditworthy customers only when the customers would like to open a credit account. Thereafter, the credit control management needs to review and identify existing customers with the high risks of probable default on the payment and to ascertain for those customers are suffering financial distress. The credit control management also will ensure that a pre-emptive action will be taken against the potential slow paymaster in order to ensure that all the repayment of outstanding debts is collected promptly.

### **1.6 A Guide to the Remaining Chapters of this Research**

This study consists of five chapters. The remaining chapters include:

Chapter 2, **Literature Review** - contains about the definition of credit, why business do extend credit, the importance of credit control management, set up of credit control department, prevention of business from credit losses, ways to collect the payment on time, the responsibilities of the credit manager, duties of tomorrow's credit manager, credit policy and procedures.

Chapter 3, **Research Methodology** - describes how the research was conducted in terms of a research setting, sample used, data collection, measurement scales and method of analysis.

Chapter 4, **Research Results and Findings**- reports the research results and findings.

Chapter 5, **Discussion and Conclusion** - presents the summary of research results, discuss on the research findings and implications, conclude and provide recommendation for future research.