

Chapter 3

Research Methodology

3.0 Introduction

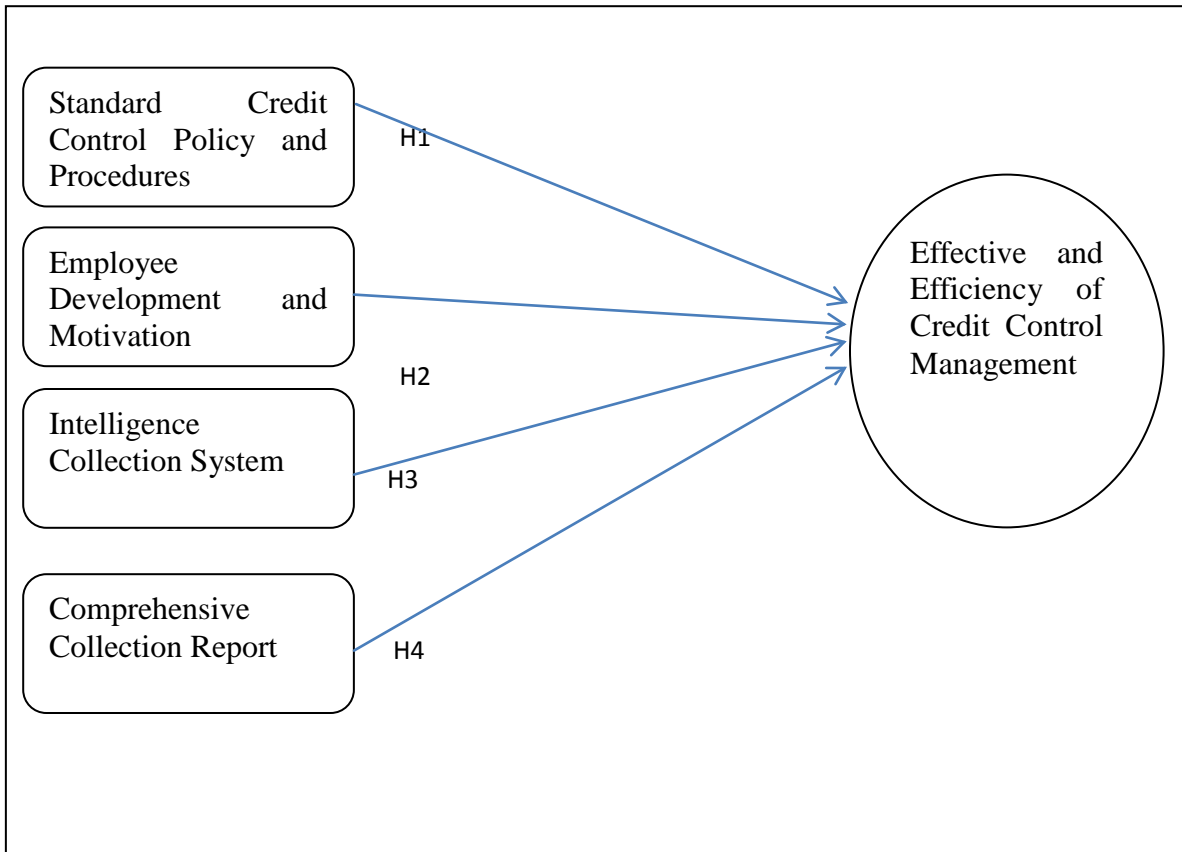
This chapter has covers the research methodology and the design of the study. This chapter also has presents the details explanation of the research hypotheses and the explanation and discussion of the theoretical framework of the research. Meanwhile, the sampling and data collection as well as the methods of statistical analysis utilized in this study are discussed and explained.

3.1 Theoretical Framework

The theoretical framework of this study is the foundation on the entire research project. The literature review in the previous chapter has outlined the issues pertaining to definition of credit, why business 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 role of the credit control manager, duties of tomorrow's credit control manager, credit policy and practice.

In this chapter, standard credit control policy and procedures, employee development and motivation, intelligence collection system, comprehensive collection report will be tested in order to confirm whether it is strongly related to the effective and efficiency of credit control management of a company.

Figure 3.1- It shows the theoretical framework of this study.



The four chosen independent variables may have influence the dependent variables are standard credit control policy and procedures, employee development, intelligence collection system and comprehensive collection report.

Standard Credit Control Policy and Procedures

It is of paramount importance for the employees involved in credit and debt matters to take cognizance of the internal trading, credit guidelines and their implications. In this credit control policy, the creditworthiness of the customers could be identified and

appraised. Henceforth, the company's commercial and financial interests are protected at all times.

The standard credit control policy and procedures can assist the company to achieve customer satisfaction through prompt processing and approval of new trading accounts, reviews of existing trading accounts, enhance the effectiveness of the debt collection and debt recovery processes, mitigate the risks of defaulting trade debtors and delinquent credit accounts and monitor compliance to approved terms and conditions agreed to by trade debtors.

A standard credit control policy and procedures is to define the credit management department function and its responsibility as well as to set down the objective and purpose of credit control management. The function of the credit control management is to protect the investment in account receivable of the company as well as to maintain the lowest level of receivables. It is also commensurate with the inherent risks in achieving sales objectives.

Besides, the credit control staffs have to fully understand the credit control policy and procedures of the company. It will help to provide a clear picture on the standard policy and procedures to the credit control staffs. The credit control staffs will also have a guide line during negotiating and liaising with their customers in order to ensure that all the customer are paying prompt or pay according to the repayment schedule.

Besides, a standard credit control policy and procedures also will help the company to assess the creditworthiness of prospective and existing customers in order to ensure that credit sales are granted to creditworthy customers only. The company also

managed to decide on appropriate trading limits and terms, security arrangement for their potential and existing customers.

The abovesaid credit control policy and procedures may provide a proper guideline to credit control staff to identify existing customers with high risks of probable default and to take pre-emptive action to ensure repayment of all outstanding debts.

In view of the above, the role and duty of the credit control manager was played an important role in the company as he or she has to ensure that all the credit control staffs are performing their duties in accordance to the credit control policy and procedures in order to ensure that all the receivables have been collected on time.

Employee Development and Motivation on Credit Control Staff

Employee development is crucial for the growth and prosperity of any business as employees are one of the determining factors for the success of the company. As such, the more capable and qualified the employees in credit control department the better the performance of collection in the company. When they are well trained, they can easily handle situations, negotiating with customers on the payment terms or settlement proposal, etc.

The significance and value of training has long been recognized in every company. Training, in the most simplistic definition, is an activity that changes people's behavior. Increased productivity is often said to be the most important reason for training. But it is only one of the benefits. Training is essential not only to increase productivity but also to motivate and inspire workers by letting them know how important their jobs are and giving them all the information they need to perform those jobs (Anonymous, 1998).

Training that is appropriate to the needs of an organization can add great value. There are few benefits from employee training and developments are as follows:

- increased job satisfaction and morale
- increased motivation
- increased efficiencies in processes, resulting in financial gain
- increased capacity to adopt new technologies and methods
- increased innovation in strategies and products
- reduced employee turnover

Employee development programs are essential to improve morale as well as to motivate the employees to perform well. Employees like to learn new skills and meet challenges and they are more motivated when they feel there is great potential for personal growth. When the company shows interest in employee development, the employee naturally has a greater interest in the company's development too.

Further to the above, by providing training to the credit control staffs, it may help the credit control staffs learned become more profession and they may felt more motivated due to the company is taking care and concern about their job satisfaction in this field. Besides, the credit control manager has to always provide guidance and advise to the subordinates, it will directly motivate them towards the company goals and increase the employee loyalty to the company.

Intelligence Collection System

An intelligence collection system is important for a company in order to provide accurate and faster information to the credit control staffs to expedite their recovery. The credit control staffs will rely on the system to furnish the data and information needed for review and follow up. That's why the collection system was important to the company.

An intelligence collection system may help the company to issue and sent out the invoices to their respective customer promptly. On top of that, the such system also will help the company to save their operating cost due to time saving and the credit control staffs may able to produce the productive result and effective debt recovery.

By generating the collection report from the intelligence system, the credit control staffs will not wasting their time to trace and consolidate all the information for their follow up and further action to be taken against the slow paymaster.

Comprehensive Collection Report

Collection report is important for credit control staffs to conduct an analysis and review on the company performance. This report will furnish you the details of the debtor for the delinquent accounts. This report also will assist the credit control staffs to get the comprehensive skip-tracing information that they need to take action when chances of recovery are highest.

By using this comprehensive collection report, the credit control officer can actually monitoring their debtor receivable portfolio closely and take pre-emptive actions against the potential bad payment in order to maximize the debt recovery and minimize the credit risk of the company. This collection report also can furnish more information

for the credit control officer's ease understanding. It will help to save the time of the credit control officer and cost of the company as well.

3.2 Research Hypothesis

Based on the theoretical framework, there are four hypotheses will be developed for this research. The variables will be used in the hypothesis are as follows:

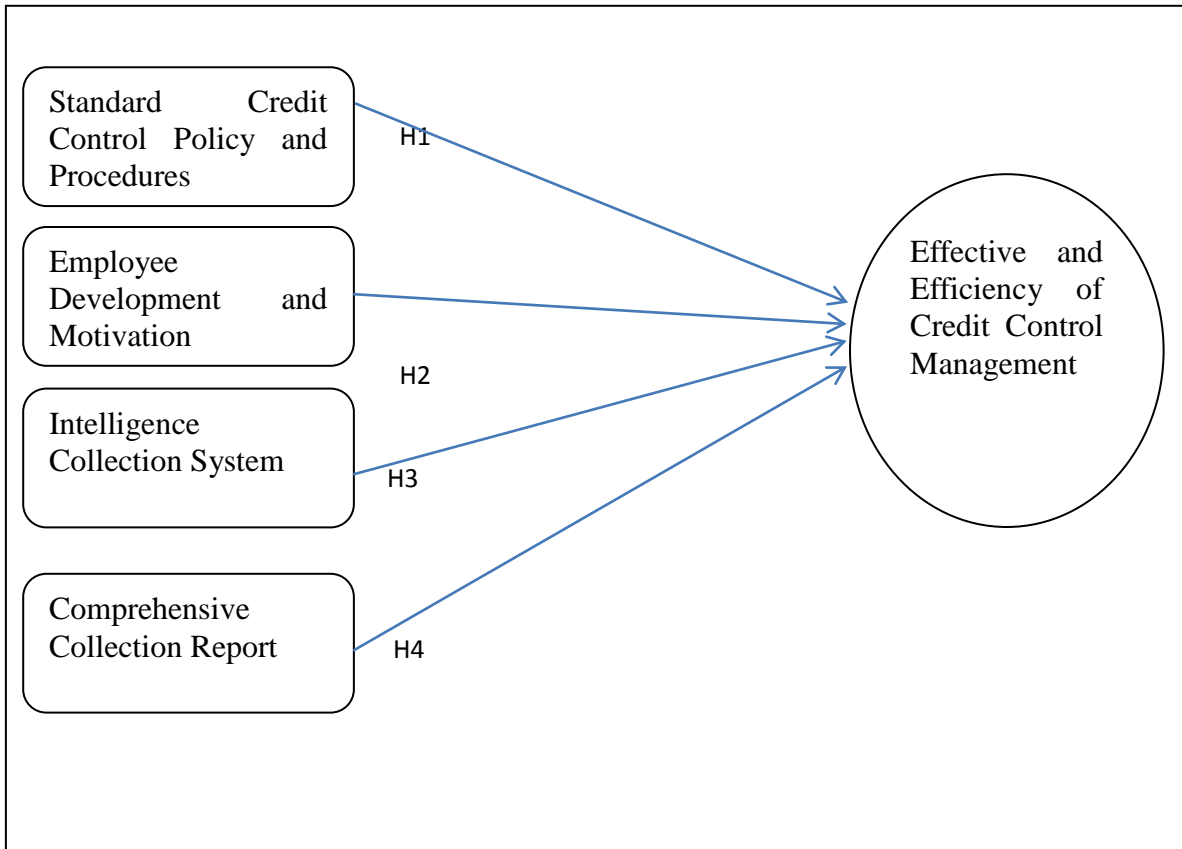


Figure 3.1 – Theoretical Framework gathered from Teh Chee Ghee (2001) with modification.

Independent Variables:

1. Standard Credit Control Policy and Procedures
2. Employee Development and Motivation
3. Intelligence Collection System
4. Comprehensive Collection Report

Dependent Variable:

1. Effective and Efficiency of Credit Control Management

The hypotheses will be going to be examined for this research is as follows:

Hypothesis One: A standard credit control policy and procedures has a significant effect on the effective and efficiency of credit control management.

Hypothesis Two: The employee development and motivation has a significant effect on the effective and efficiency of credit control management.

Hypothesis Three: The intelligence collection system has a significant effect on the effective and efficiency of credit control management.

Hypothesis Four: The comprehensive collection report has a significant effect on the effective and efficiency of credit control management

3.3 Research Design

The basic purpose of this research is to examine whether the four independent variables have influence on the effective and efficiency of credit control management. This research was conducted on a listed company at Bursa Malaysia, namely Engtex Group Berhad. The units of analysis were the Managing Director, Sales Managers, Accountants, Credit control executives and officers and all the department staffs. A Questionnaire was designed based on the first interview with the Accountant who is person in charged for the credit control department. The final version of the questionnaire

was sent to the respondents using the survey method and the data gathered from the respondents were compiled and analyzed using SPSS system.

3.4 Sampling design

The nature of this study is more of concerned into standard editing and coding procedures was utilized Engtex Group Bhd. Detailed analysis and discuss on the response were performed against Engtex Group Berhad through the questionnaire that their reply to us and additional comments from the 91 candidates.

3.5 Instrument

The questionnaire consisting of items relevant for this study was constructed in accordance to The SPSS system. A 5 point scale ranging from Strongly Disagree =1 to Strongly Agree=5 were used to evaluate each of the statement or questions.

3.6 Data Collection and Analysis

The survey results are collected via interview and some of it is assisted by the credit control staffs to distribute the questionnaires to their colleagues. Further information were obtained via second interview with the Accountant and obtained financial data and annual reports from their web sites and annual reports.

The data gathered from the respondents were edited to check for the consistency to ensure that the questions / statements given were not contracting between each other. If the questionnaire was left blank more than 50%, it will be discarded and was not be calculated in the data set for the research analysis.

This study using the descriptive statistic including frequency distributions for the variables, means, standard deviation for data analysis. Range and variance on the independent variables and dependent variable were carried out to describe the characteristic of the population. Besides, this studies also using the reliability analysis to determine for interim consistency reliability of measures. It is help to confirm that each element is indeed obtained from the items and each dimension derived from the elements.