

CREDIT CONTROL MANAGEMENT AND BUSINESS PERFORMANCE : THE MALAYSIAN FAMILY SME PERSPECTIVE

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This study examined the relationship between control management and family business performance in the Malaysian context. It has two objectives, the first being to determine the relationship of organizational credit control policy and procedures, employee development and motivation, and intelligence collection systems to subsequent collection reports in Malaysian family SMEs. The second objective is to investigate the moderating effect of participation in decision-making and work effort towards innovation and business performance. This is a descriptive study involving 90 senior executives employed in 90 Malaysian family SMEs/firms. A correlation analysis from this study confirmed previous researchers' observations that high-level organizational commitment to credit control management is linked to improvements in business performance. The results suggest that three components - credit policy, employee development, and intelligence collection systems - are the most important predictors for the efficiency and effectiveness of credit control management.

Abstract



Key words: Family Business Performance, credit control, employee development, motivation and credit system

Penelitian ini menguji hubungan antara manajemen kontrol dan performa bisnis keluarga dalam konteks Malaysia. Penelitian ini memiliki dua tujuan, pertama adalah untuk menentukan hubungan antara kebijakan pengendalian kredit dan prosedur organisasi, pengembangan dan motivasi karyawan, dan sistem pengumpulan intelijen dan laporan koleksi berikutnya di UKM keluarga Malaysia. Tujuan kedua adalah untuk mengetahui pengaruh moderasi partisipasi dalam pengambilan keputusan dan usaha kerja mengenai inovasi dan performa bisnis. Penelitian ini merupakan penelitian deskriptif berdasarkan 90 eksekutif senior yang bekerja di 90 perusahaan UKM keluarga Malaysia yang disurvei. Sebuah analisis korelasi dari penelitian ini menegaskan pengamatan peneliti sebelumnya bahwa komitmen manajemen pengendalian kredit organisasi tingkat tinggi terkait dengan performa (kinerja) bisnis yang lebih tinggi. Hasil menunjukkan bahwa tiga komponen yaitu, kebijakan kredit, pengembangan karyawan, dan sistem pengumpulan intelijen adalah prediktor yang paling penting yang digunakan oleh manajemen pengendalian kredit.

Abstrak



Kata kunci: Performa Bisnis Keluarga, pengendalian kredit, pengembangan karyawan, motivasi dan sistem kredit

It is widely believed that credit control management can help create a strong cash flow in a company. The purpose of this study is to determine the factors that influence effective and efficient credit control management in Malaysian family SME. It will further explain why some family businesses/firms have managed to achieve higher performance and higher profits through the use of better profit sources, while others have failed to score improvements in terms of either performance or sources of profit. The data was collected from 90 Malaysian family SMEs/firms. This study tested four independent variables (1) standard credit control policy and procedures, (2) employee development and motivation, (3) intelligence collection system, and (4) comprehensive debtor collection report. We used SPSS to test all the independent variables in order to determine the significance of these variables and assess the effectiveness and efficiency of credit control management efforts. The results from a survey on 90 firms indicate a positive relationship between each independent variable and its dependent variable. This study also proposes several important suggestions for the improvement of credit control management practices in Malaysian family SMEs.

Although both family businesses and non-family businesses are concerned with credit control management and business performance, what differentiates family businesses from non-family businesses is the variation in the relative importance of factors affecting each decision. A family business, as a strategically distinct entity, has a unique strategic approach towards tax planning, business continuation,

founder transition, and owner/manager life cycles. They have different goals, traditions, life-cycle stages, and values from a non-family business. Indeed, family business decisions are more complex due to non-monetary motivations such as preserving and transferring family assets, both tangible and intangible, to the next generation; these motivations inevitably influence management decisions.

Meanwhile, the varying degree of the owning family's involvement should show that a family businesses lie on a continuum rather than in a state of binary opposition between family and non-family businesses.

Credit control and debtor management is important for a successful company. However, some family SMEs are still unable to monitor their debtor receivables and bad debts effectively, and this causes cash flow problems that may eventually force the business to cease operations.

This study examined the factors affecting the effectiveness and efficiency of credit control and debtor management measures in Malaysian family SMEs/firms. It further seeks to explain why some family firms achieve higher performance and obtain higher profit and better sources of profits, while others failed to achieve either or both.

This study seeks to cover the following research subjects: (1) The effects of credit control policy and procedures upon effective and efficient credit control and debtor management; (2) The effects of employee development and motivation upon effective and efficient credit control and debtor management; (3) The effects of an intelligence collection system upon

effective and efficient credit control and debtor management; (4) The effects of comprehensive collection reports upon effective and efficient credit control and debtor management.

LITERATURE REVIEW

The objective of the literature review is to gain a clearer understanding of the definition of credit, why businesses extend credit, the importance of credit control management, the organization of the credit control department, how to prevent credit losses, the methods used to collect payments on time, the responsibilities of the credit control manager, the duties of tomorrow's credit control manager, and credit policies and procedures in relation to business performances.

Credit Control

According to the Dictionary of Business Dictionary, to "offer credit" means to defer payment terms offered by a seller to a buyer as a standard trade practice or to encourage sales. In some trades such as jewelry business, the credit may extend to 180 days or even longer (Peel, Wilson, and Howorth, 2000).

According to the Financial Dictionary, "credit" is a term used for many financial services that involve the borrowing of money. In its basic form credit refers to a legally binding agreement between a borrower and lender where the borrower receives money or assets and agrees to pay for the goods or services at a later date, sometimes with added interest. A lender is referred to as a creditor and a borrower is referred to as a debtor.

In business term, the supplier's and

producer's credit is commonly referred to as trade credit. To extend trade credit to a customer means a company will give time to customer to pay or settle the full payment for goods and services supplied. The credit terms may vary depending on the nature of the business.

Credit Control Policy and Procedures

Shelly Hart (2011) states that the purpose of credit control policies and procedures is to define the credit control department's function and its responsibility, and to set down credit objectives as well as the operational guidelines of the credit control department. The function of credit control policy and procedures is to protect the company's investment in accounts receivable, and also to maintain the lowest possible level of receivables. It is commensurate with the inherent risks of achieving sales objectives and increasing company profits.

In accordance with the credit control policy, the information gathered could be summarized in a credit evaluation report that includes a summary of the potential debtor's corporate financial statement, financial ratios, cash flow analysis, and payment trend analysis. There are also several types of supporting information that may have to be collected for decision-making purposes, such as a credit history that includes credit limits, the timing of payments, and any actions that have been necessary to secure payment; a precise identification and a description of the company's operation and background; description of the owners, their backgrounds, and strengths; pertinent details such as lawsuits and bankruptcies; and a summary credit score rating (Shelly Hart 2011).

The credit terms and period offered to the customer must be clearly defined and stated in the credit control policy since it will affect the cash flow of the company. The credit term/period is a length of time granted to the customer for payment on the goods received and it is normally determined according to an industry standard. However, the credit terms and period have a direct impact upon the cost of financing receivables and involves a collection risk. As such, the credit terms and period must be well considered by the management before submission and inclusion in the credit control policy. The credit terms and period are influenced by the strength of the creditor company's market position. The company must post a strong cash flow because the payment will be only collected after the credit term is due. Besides, the attitude of the competitors in setting their credit terms will also affect the debtor company's credit terms since customers will be looking for a supplier that offers longer credit terms, lower account keeping charges, or both (Garcia-Teruel and Martinez-Solano, 2010).

RESEARCH METHOD

This study was conducted to determine the effectiveness and efficiency of credit control management for Malaysian family SMEs. A regression model for the effectiveness and efficiency of credit control management is proposed as a tool for investigating the factors that influence the effectiveness and efficiency of credit control management for Malaysian family SMEs. Four independent variables are included in the model.

Furthermore, previous research showed

that credit control management can succeed and offer real benefits for SMEs if the credit policies have the following characteristics: (1) The company has a standard credit control policy and procedure to provide clear guidance for the staff; (2) The employee collection performance is enhanced and improved through a stronger focus on employee development and motivation; (3) The company has an intelligence collection system used by the managers and staff for collection purposes; (4) The managers and credit control staff analyze the comprehensive collection report for the prevention of doubtful debt and have a policy to determine the next step to be taken against slow payers.

SPSS was used to analyze the data gathered from the respondents and standard multiple regression was applied to study the relationships between each other.

Sampling Design and Data Collection Procedure

This research employed a descriptive design to support the study of the hypotheses presented above. The survey instrument consisted of specific questionnaires tailored for each individual component: organizational commitment, intention to leave current employment, selected moderating variables (power, experience, and culture), and various demographic variables.

Self-administered questionnaires were distributed to a convenience sample of 90 senior executives working in 90 Malaysian SMEs, since a non-probability sampling method was adopted.

Table 1. Reliability of measures

| Measure | Number of items | Cronbach's Alpha Coefficient |
|-----------------------------------|-----------------|------------------------------|
| Credit control policy & procedure | 7 | 0.800 |
| Employee development & motivation | 5 | 0.666 |
| Intelligence Collection System | 5 | 0.874 |
| Comprehensive Collection Report | 5 | 0.699 |

Data Analysis Techniques

The data was analyzed using the Statistical Package for Social Sciences (SPSS) version 16.0 program. A unique code was defined for each variable prior to any data inputs into the program. The accumulation of all Likert Scale points for all questions under a particular measure produced a new variable. The following derived measures from the sum of the Likert Scale results cover the following issues: (1) Credit control policy and procedures, (2) Commitment to employee development and motivation, (3) Intelligence collection system, (4) Comprehensive Collection Report.

The data analysis consisted of: (1) Normality test for each variable. Descriptive numerical method of skewness and kurtosis statistics were used, (2) Test of scale reliability. Cronbach's alpha coefficient was used for this purpose, (3) Determination of the relationship between each dimension with credit control management and performances was made through a Pearson correlation coefficient analysis, (4) Determination of the linear composite relationship between the participation of the four abovementioned variables in credit control management and performance, using multivariate statistical technique with all regression variables.

RESULT AND DISCUSSION

Normality Test

The normality of all the variables was tested by assessing the skewness and kurtosis values. When data is normally distributed, the value of skewness and kurtosis are zero, while values outside the range of +2 or -2 demonstrate considerable degrees of non-normality (George and Mallery, 2003). In this study, most of the variables were inside the range of +2 to -2.

Reliability Test

Cronbach's Alpha Coefficient was used to measure the internal consistency of scale. Its value ranges from 0-1. The tests of reliability were performed on all the measures used. Table 1 below summarizes the Cronbach's Alpha for each measure. A scale is reliable if the coefficient value is higher than 0.600 (Hair et al., 1998).

All the measures in this study were found to be reliable with the intention to leave the employment scale with the highest alpha value of 0.884. The one measure with a reliability coefficient lower than 0.700 was normative commitment.

- H1:** There is a significant relationship between organizational commitment and intention to leave.
- H2:** There is a significant relationship between effective commitment and intention to leave.
- H3:** There is a significant relationship between effectiveness and efficiency of credit control and debtor management.
- H4:** There is a significant relationship between comprehensive collection report on effective and efficiency of credit control and debtor management.

The Pearson Correlation Coefficient analysis was used to determine the relationship between credit control management and performance. The Pearson Correlation coefficient indicates the strength of relationship between variables. A correlation coefficient between 0.10 and 0.29 indicates a small correlation, while a coefficient between 0.30 and 0.49 indicates a medium correlation and a coefficient between 0.50 and 1.0 indicates a large correlation (Sidin and Zawawi, 2002).

Table 2 shows the Pearson Correlation coefficient (r) between four dimensions (credit control policy and procedure, employee development and motivation, intelligence collection system, and comprehensive collection report) and credit control management and performance. Credit control policy and procedure shows a Pearson Correlation of $r = -0.564$, which indicates a strong positive correlation with credit control management and performance.

The correlation analysis results show that all three dimensions have a

significant inverse relationship with credit control management and performance. Employee development and motivation shows a large correlation with intention to leave with $r = -0.586$ ($p < 0.01$) while both intelligence collection system and comprehensive collection report demonstrate a medium correlation with $r = -0.313$ ($p < 0.01$) and $r = -0.367$ ($p < 0.01$) respectively. Therefore, hypotheses H1, H2, H3 and H4 were fully supported.

The objective of this study is to test the impact of knowledge about the effect of the credit control policy and procedures, employment development and motivation, intelligence collection system and comprehensive collection reports on credit control management and performances of Malaysian family SMEs.

This study uses T-test, Pearson Correlation Analysis, and regression analysis. All of these research methods can help us analyze credit control operational activity and abilities. In the past, many researchers have studied the impact of credit control and debtor management and non-performing loans on commercial and banking industries (Teh Chee Gee, 2001). In this study, we explain and test the factors of the effectiveness and efficiency of credit control management. These four factors are standard credit control policy and procedures, employee development and motivation, intelligence collection system and comprehensive collection report.

Several important findings from this study are presented in the following paragraphs.

Table 2. Pearson correlations between dimensions of Credit control management and performance

| | Credit control management and performance |
|-------------------------------------|---|
| Credit control policy and procedure | -0.564** |
| Employee development and motivation | -0.586** |
| Intelligence collection system | -0.313** |
| Comprehensive collection report | -0.367** |

** Correlation is significant at the 0.01 level

Standardized Credit Control Policy and Procedures

The results show that standardized credit control policy and procedures, employee development and motivation, intelligence collection system and comprehensive collection report have all contributed to the improvement of credit control management and performance in Malaysian SMEs/family businesses. These research findings also tell us that most Malaysian SMEs/family business can improve their credit control management by designing and implementing good and standardized credit control policies and procedures.

Employee Development and Motivation

Our results show that a company's credit control management tends to be more effective and efficient when the firm has an employee development and motivation program. According to our findings, firms that have implemented employee development and motivation programs generally display higher performance in the collection of receivables by their staff as well as improvements in the staff's level of technical knowledge. Staff motivation affects the effectiveness and efficiency of credit control management since it encourages employees to perform their tasks to a higher standard and rewards improvements with incentives and promotions.

Intelligence Collection System

The results show that the presence of an intelligence collection system has a positive influence on credit control management and offers better collection performance for most Malaysian family SMEs. Recently, advanced technology has become an important component in credit control management. Intelligence collection systems have assisted most Malaysian SMEs/family business in monitoring their receivables and keeping track of their customer's payment records. Besides, an intelligence collection system also can provide valuable data and information on receivables to the credit control staff for ease of monitoring and the planning of proactive recovery actions. The intelligence collection system also saves time and money for the company since the credit control staff has an easier time extracting information needed from the system for further analysis.

Comprehensive Collection Report

According to our results, most Malaysian SMEs/family business have generated and utilized comprehensive collection reports for monitoring and analysis. The comprehensive collection report provides very useful and detailed customer information to the credit control staff. The credit control staff used the collection report to follow up payments from the customers and to

payments from the customers and to ensure that all billings and payments received from the customers are recorded in the collection report. The collection report also saves time and money for most Malaysian SMEs/family businesses. The credit control manager can simultaneously conduct a collection and cash flow analysis upon the customers by analyzing the collection report. This analysis evaluates the firm's cash flows and repayment trends among its customers, and can help initiate and guide recovery decisions to aid in the prevention of doubtful debts.

CONCLUSION

This research revealed that four determinant factors - (1) the company has a standardized credit control policy and procedure to provide clear guidance and to the staff, (2) the employee collection performance is enhanced and improved by a stronger focus on employee development and motivation, (3) the company has an intelligence collection system that can be utilized by the managers and staff for collection purposes, (4) the managers and credit control staff have to analyze the comprehensive collection report to prevent doubtful debts and determine the next course of action to be taken against bad debtors - can explain 85.6 percent of the variance on the effectiveness and efficiency of credit control management. All of these independent variables contributed to the effectiveness and efficiency of credit control management.

This study shows that all four of the

independent variables were able to explain variances in the effectiveness and efficiency of credit control management among family businesses.

Several important suggestions are presented in the following:

According to a previous study (Samuel Greengard, 2005), a company should devote more attention and resources into credit control management in order to strengthen their debtor management efforts. The long term survival of a company depends on both profitability and debt collection ability. Debt collection is the ultimate form of selling and a credit sale is not a sale for the company unless it has been converted into cash. Secondly, Malaysian family SMEs/firms should implement a credit documentation format that can ensure that all credit risks would be adequately monitored and controlled by the credit control staff so as to lower the risk that doubtful debts would become bad debts. Finally, 21st-century Malaysian family SMEs/firms should spend more resources for Information Technology resources to enhance credit control features in debt management efforts. The company should always upgrade the collection system in order to guarantee accurate information, and also assist the credit control staff with the analysis of non-payments by their customers and the choice of next course of action.

Acknowledgments

This research was sponsored by UM UMRG grant.

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Appendix-Questionnaire.

Please anticipate answering the questionnaire.

PART A: Respondent demographics

This section is about some basic information about you. Please cross only one box for each question as below:

 X

1. Gender

 Male

 Female

2. Age

 Below 21 years
 41 - 50 years

 22 - 30 years
 51 - 60 years

 31 - 40 years
 Above 60 years

3. Ethnic group

 Malay
 Indian

 Chinese
 Others (please specify) _____

4. Marital status

 Single

 Married

 Divorced / Widow

5. Highest level of education

 Primary School
 Secondary/High School
 Certificate or Diploma
 Bachelor Degree

 Postgraduate (i.e. Master/ Doctorate)
 Professional Certificate
 Others

6. Monthly income

| | | | | | |
|--------------------------|--------------------|--------------------------|-------------------|--------------------------|-----------------|
| <input type="checkbox"/> | Below RM2,000 | <input type="checkbox"/> | RM2,000 – RM5,000 | <input type="checkbox"/> | RM5,001-RM8,000 |
| <input type="checkbox"/> | RM8,001 – RM10,000 | <input type="checkbox"/> | RM10,001 & above | | |

7. Occupation

| | | | |
|--------------------------|-------------------------|--------------------------|------------------------------|
| <input type="checkbox"/> | Managerial/Professional | <input type="checkbox"/> | Not Working/Retired |
| <input type="checkbox"/> | Executive | <input type="checkbox"/> | Housewife |
| <input type="checkbox"/> | Supervisor | <input type="checkbox"/> | Self Employed/Business Owner |
| <input type="checkbox"/> | Non- Executive | <input type="checkbox"/> | Others |
| <input type="checkbox"/> | Students | | |

8. Employer's nature of business

| | | | |
|--------------------------|------------------|--------------------------|-------------------|
| <input type="checkbox"/> | Manufacturing | <input type="checkbox"/> | IT company |
| <input type="checkbox"/> | Construction | <input type="checkbox"/> | Insurance Company |
| <input type="checkbox"/> | Banking Industry | <input type="checkbox"/> | Services Company |
| <input type="checkbox"/> | Trading | <input type="checkbox"/> | Other: _ |
| <input type="checkbox"/> | Transportation | | |

9. Company turnover:

| | | | | | |
|--------------------------|-------------------------------|--------------------------|-------------------------|--------------------------|-------------------------|
| <input type="checkbox"/> | Below RM100,000 | <input type="checkbox"/> | RM100,001– RM500,000 | <input type="checkbox"/> | RM500,001 – RM1,000,000 |
| <input type="checkbox"/> | RM1,000,001 – RM10,000,000 | <input type="checkbox"/> | RM10,000,001 & above | | |

10. Number of employees

| | | | |
|--------------------------|-----------|--------------------------|-------------|
| <input type="checkbox"/> | 1 to 10 | <input type="checkbox"/> | 11 to 50 |
| <input type="checkbox"/> | 51 to 200 | <input type="checkbox"/> | 200 & above |

PART D: This section examines your Attitudes to Functional (Healthy) Food Products.
(1 denoting STRONGLY DISAGREE and 5 denoting STRONGLY AGREE)

Please cross (x) your answer.

| | | Strongly Disagree | Disagree | Neither Disagree nor Agree | Agree | Strongly Agree |
|---|--|-------------------|----------|----------------------------|-------|----------------|
| 1 | Standard Credit Control Policy and Procedures | 1 | 2 | 3 | 4 | 5 |
| a | A standard credit control policy will help me in better debtor management and better collection. | | | | | |
| b | A standard credit control procedures will assist me in better debtor management and better collection. | | | | | |

| | | | | | | |
|---|--|---|---|---|---|---|
| c | A successful company should set up a credit control department. | | | | | |
| d | A successful company should have their own standard credit control policy and procedures for their credit control department. | | | | | |
| e | A standard credit control policy and procedures will provide guideline to credit control staff. | | | | | |
| f | It is pointless to have a credit control policy and procedures for a company. | | | | | |
| | | | | | | |
| 2 | Employee Development and Motivation | 1 | 2 | 3 | 4 | 5 |
| a | I strongly believed that an experience credit control staff will be more effective and efficient than non-credit control staff | | | | | |
| b | I think being a good collector, he/she must post a well negotiation skills. | | | | | |
| c | A proper training provide to the respective credit control staff will help to improve the knowledge of the credit control staff. | | | | | |
| d | Incentives given to the credit control staff will affect the individual collection performance from the credit control staff. | | | | | |
| e | Incentives will attract the credit control staff to maximise the debt recovery. | | | | | |
| | | | | | | |

| 3 | Intelligence Collection System | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| a | An intelligence collection system will help the company reduce their bad debt. | | | | | |
| b | An intelligence collection system will help the credit control staff for better monitoring their individual portfolio. | | | | | |
| c | An intelligence collection system will incurred extra unnecessary operation cost of the company. | | | | | |
| d | An intelligence collection system can generated a lot of useful data and information to credit control staff for review and further action. | | | | | |
| e | An intelligence collection system will help the company to save the time and cost of the company. | | | | | |
| 4 | Comprehensive Collection Report | 1 | 2 | 3 | 4 | 5 |
| a | I think review the collection report is wasting the staff's time. | | | | | |
| b | A comprehensive collection report will not assist the credit control staff for better monitoring on their customer. | | | | | |
| c | The credit control staff can review the collection report and gather more repayment trend for its customer. | | | | | |
| d | This collection report will assist the credit control staff to get the comprehensive skip-tracing information that they need to take action when chances of recovery are highest. | | | | | |

| | | | | | | |
|---|--|--|--|--|--|--|
| e | This collection report will furnish you the details of the debtor for the delinquent accounts. | | | | | |
| 5 | Effective and Efficiency if Credit Control Management | | | | | |
| a | Standard Credit Control Policy and Procedures provides a guideline and standard of collection manual to credit control staff | | | | | |
| b | Standard Credit Control Policy and Procedures can help a company to monitor their debt receivable effectively. | | | | | |
| c | Employee Development and Motivation can affect the effective and efficiency of the credit control management | | | | | |
| d | Intelligence Collection System can help a company to monitor their debt receivable effectively. | | | | | |
| e | Comprehensive Collection Report can help a company to monitor their debt receivable effectively. | | | | | |

Thank you very much for completing this questionnaire