EFFECT OF CREDIT MANAGEMENT PRACTICES ON THE PROFITABILITY OF FORMAL MANUFACTURING FIRMS IN KENYA

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A THESIS SUBMITTED TO THE SCHOOL OF BUSINESS IN THE DEPARTMENT OF BUSINESS ADMINISTRATION IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF DEGREE OF MASTER IN BUSINESS ADMINISTRATION OF TECHNICAL UNIVERSITY OF MOMBASA

2025

DECLARATION

This thesis is my original work and has not been presented for a degree award in any other university.

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DEDICATION

I dedicate this thesis to my nieces Feisal Abdinur, Abdullahi Abdinur, Musa, Halima, Sumeiyah, Anass and Aisha Abdinur. I encourage you all to be determined and pursue excellence in everything you do. Above all as you excel remain humble, tolerant and remember God in everything you do.

ACKNOWLEDGEMENT

I take this opportunity to thank the almighty God for being the source of my strength throughout my entire life. My special gratitude goes to my supervisors Dr. Stephen Mwanzia and Dr. Isaac Otiende who supported me throughout my study. My special thanks go to my husband Mohamed for the support throughout my studies and taking care of the family whenever am not around. I also want to acknowledge my employer Coast Development Authority for giving me the chance to continue with my MBA studies. I also want to acknowledge my late brother Mr. Abdinur Ali as he always used to tell me to aim higher and pursue excellence.

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LIST OF ABBREVIATIONS

ANOVA:	Analysis of Variance
ASE:	Amman Security Exchange
CA:	Client Appraisal
CM:	Credit Management
CMP:	Credit Management Practices
COMESA:	Common Market for East and South Africa
CR:	Credit Risk
DSC:	Debt Service Coverage
DTI:	Debt-to-income
GDP:	Gross Domestic Product
GSE:	Ghanian Securities Exchange
JSE:	Johannesberg Securities Exchange
KAM:	Kenya Association of Manufacturers
KMO:	Kaiser Mayor Oklin test
NACOSTI:	National Commission for Science, Technology and Innovation
NPL:	Non-Performing Loans
ROA:	Return on Asset
ROE:	Return on Equity
SACCO:	Savings and Credit Cooperative Organizations
SME:	Small and Medium Enterprises
SPSS:	Statistical Package for Social Sciences
TDS:	Total Debt Service

TUM: Technical University of Mombasa

UK: United Kingdom

VIF: Variance Inflation Factor

DEFINITION OF TERMS

Client Appraisal: It's evaluation process that is used by any company or organization that deals with credit (Abedi, 2020)

Credit Assessment: This is a process to determine customer's ability to repay the credit and how risky it is for them (Binks & Ennew, 2018)

Debt Collection Policy: This is the set of practices or procedure a business ensures that accounts receivables are paid (Esther, 2021)

Collateral: property or other assets pledged by a borrower as security for the repayment of a credit (Ogboi, 2019)

Debt Management: It is a process where a business or financial institution provides a product or service to a customer on the basis of credit and recovering this credit when it is due. After the sale of the good or service, the business receives payments from the buyer or borrower (Lawrence, 2020)

Credit Risk Control: This refers to the likelihood that a corporation may suffer

losses if its borrowers fail to make their payments on time and the steps taken to control (Gatuhu, 2019)

Credit Terms: This is the agreement between a buyer and a seller that specifies when and how much the buyer would pay in the future (Al-Eitan, Khanji, & Saraireh, 2023)

Manufacturing Firms: Manufacturing firms are those that engage in the transformation of goods, materials or substances into new products (Levinson & Brown, 2020)

Profitability: Refers to a company's capacity to produce earnings that are greater than its costs. It is assessed using ratios like the gross profit margin and the net profit margin (Adegboye, 2021)

ABSTRACT

The main purpose of this study was to determine the effect of credit management practices on the profitability of the formal manufacturing firms in Kenya. The specific objectives of the study were formulated as follows: to investigate of the effect of client appraisal on profitability of formal manufacturing firms in Kenya, to establish the effect of credit risk control on profitability of formal manufacturing firms in Kenya, to determine the effect of debt collection policy on profitability of formal manufacturing firms in Kenya and to determine the effect of credit terms on profitability of formal manufacturing firms in Kenya. The study was anchored on the Credit Risk theory, Credit Scoring Theory and Credit Default Theories. The study adopted the descriptive research design. The Target population for the study was 1,008 registered formal manufacturing firms in Kenya, whereas the sample size was 286 unit of analysis which were selected via the stratified random sampling technique. The researcher used both primary secondary data. The primary data was collected using questionnaires, whereas the secondary data was collected via data collection sheets. The statistical package for social sciences version 20 was used in analysing the collected data in this thesis. The regression coefficients generated from the model were used in testing the hypothesis at .05 level of significance. The p-value for H_{01} was .001, the P-value for H_{03} was .000 and the p-value for H_{04} was .005. These outcomes informed the rejection of H_{01}, H_{03} and H_{04}. The rejection of H_{01}, H_{03} and H_{04} entailed that client appraisal, Debt collection policy, and credit terms have a significant effect on the profitability of formal manufacturing firms in Kenya. The p-value for H_{02} was .093, these outcomes led to the failure to reject the second hypothesis. The failure to reject H_{02} indicated that credit risk control has no significant effect on the profitability of formal manufacturing firms in Kenya. The study therefore, concluded that the formal manufacturing firms in Kenya should focus on investing in client appraisal, debt collection policy, and credit terms since they significantly affect their performances. The outcomes from the study would be helpful to managers in the manufacturing firms in making informed decisions with reference to credit management. The study also enriched the literature in the field of finance. The study recommends that policy formulating bodies and regulatory bodies should devise policies which support formulation and implementation of credit management practices, this is because they have an overall positive effect on the performance of formal manufacturing firms in Kenya.