EFFECT OF CREDIT MANAGEMENT ON CORPORATE PERFORMANCE:

EVIDENCE FROM QUOTED NIGERIAN FOOD AND BEVERAGE INDUSTRY

BY

AJAYI TOLUWALASE DEBORAH

MATRIC NUMBER: 15020101005

A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, COLLEGE OF HUMANITIES, MANAGEMNT AND SOCIAL SCIENCES, MOUNTAIN TOP UNIVERSITY, OGUN STATE IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE (BSc.) DEGREE IN ACCOUNTING

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CERTIFICATION

This is to certify that this project work was carried out by AJAYI TOLUWALASE DEBORAH with MATRICULATION NUMBER 15020101005, in partial fulfilment of the requirements for the award of Bachelor of Science (BSc) degree in Accounting at the department of Accounting and Finance, College of Humanities, Management and Social Sciences, Mountain Top University, Ogun state, Nigeria.

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Head of Department	Signature	Date

DEDICATION

I dedicate this project to the Almighty God for he alone gives the wisdom to do works and his help all through the period of my stay in Mountain Top University.

ACKNOWLEDGEMENTS

My greatest appreciation goes to the Almighty God for everything he has done for me and how he has helped me.

I am eternally grateful to my parents, Mr. and Mrs. Ajayi for all their contributions especially their prayers to this project. I also want to extend my gratitude to my loved ones: Mummy Funmilayo, Temiloluwa, Jesulayomi, Biodun, Aramide and Yetunde. God bless you all.

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ABSTRACT

Credit management is one of the most important activities in any company and cannot be overlooked by any organization that wants to make profit. The inability of firms to show a true and fair view of their financial statements because they grant credit to customers has led to the need to carry out this study. This study examined the effect of credit management on the corporate performance of Quoted Food and beverage manufacturing firms in Nigeria. Client appraisal, Credit risk and Credit policy were used as proxies for Credit Management and Financial Performance was used for Corporate Performance. The research design adopted was survey research design. The sample size was selected using the simple random sampling technique. Five out of the sixteen quoted food and beverage manufacturing industry were selected for this study. The researcher used primary data from which necessary data was sourced from the administration of Questionnaires. The researcher made use of Regression analysis to examine the relationship between the variables. The result reveals that the three variables have a positive relationship to corporate performance The result reveals that jointly, client appraisal (p.value = 0.044), credit risk (p.value = 0.342) and Credit policy (p.value= 0.392) does not significantly affect the corporate performance of Quoted food and Beverage manufacturing firms in Nigeria but there is a significant relationship between client appraisal and corporate performance. Recommendation for this study includes that management should ensure that competent personnel should be in charge of client appraisal.

Keywords: Credit, Accounts Receivables, Financial Performance, Bad Debts, Food and Beverage Companies.

CHAPTER ONE

1.1 BACKGROUND TO THE STUDY

The food and beverages manufacturing firms are among the major producers of consumer goods in Nigeria and it is the largest subsector of the Nigerian manufacturing industry (Okere,2012). This subsector of the economy deals with the processing of raw food materials, its branding and packaging and ensuring that such goods get to the final consumers. These food materials include all goods intended for human ingestion. The sector is a growing and an important sector of the Nigerian manufacturing industry, therefore, credit management should be given proper attention so that the corporate performance can be improved. The Nigerian manufacturing industry has witnessed growth in its economic activities notwithstanding the limited financial resources present and such growth can be linked to credit transactions (Ifurueze,2013).

Kagoyire, A.& Shukla, J. (2016) identified that one of the many factors for influencing demand for a product is credit. They also observed that firms may only be able to profit from granting credit if the profit obtained from enlarged sales go beyond the additional costs of receivables. Myers and Brealey (2003) define credit as a method whereby control of goods and services are acceptable without on the spot payment on a pledged contract for future period.

The importance of trade credit cannot be overemphasized because it attracts new customers to the business and transactions are made favorable to both parties. Selling on credit becomes unavoidable when competition is involved. Any business that wants to thrive successfully should at a point grant trade credit to its customers, or else, it would lose its customers to other competitors. Then, granting of trade credit (investment in accounts receivables) becomes vital for survival (Kakuru,2001).

Credit management serves as a good approach for the business to be stable financially. Efficient credit management does not only protect the supplier from potential losses, but also protects the customers from incurring more debt that cannot be easily settled. A firm that engages in trading activities with its customers and does not immediately collect cash is said to have given trade credit to its customers. This way, accounts receivable is created which is collectable at a later date (Kungu, Wanjua, Waititu & Gekara, 2014).

Credit management can be seen as the laid out guidelines that states out the terms and conditions for a firm to supply goods on credit to its customers, how receivables will be collected, and the steps to be taken in case the customer cannot fulfil their obligations towards payments. Pandey, (2004) suggested that credit is a marketing strategy for increasing sales. Granting of credit sales to customers must be properly monitored, irrespective of a firm's share of the market and the rate at which there is demand for its goods and services.

In accordance with the business dictionary, financial performance includes assessing the effects of a firms' policies and processes in monetary expressions.

1.2 STATEMENT OF PROBLEM

The importance of the food and beverage manufacturing industry cannot be overemphasized in the development plans of Nigeria. (Samuel & Walkers, 1993) as cited in Onuora & Ifeacho (2017) identified that managing accounts receivables have become a big problem because they are not regulated adequately. Kagoyire, A.& Shukla, J. (2016) pointed out that in current dispensation of business, dealing with the business environment threat management and enhancement of cash flow is very demanding. As cited in Onuora & Ifeacho (2017), for a business to continue yielding profits, there must be proper management of its receivables (Foulks,2005). Receivables can be

supervised by making use of Ageing Schedule (AS), Collection Experience Matrix (CEM), Average Collection Period (ACP) and other factoring approaches (Summers and Wilson, 2000) as reviewed by Orshi 2016. Beckan and Richard (1994) as mentioned by Onuora & Ifeacho 2017 observed that some of the firms that grant credit to its customers will not always have financial statements that show a true and fair view because receivables are not sufficiently provided for. (Gitman 1997) as cited in Gathuhu, (2013) stated that the possibility of bad debt rises as credit standards are lenient. When there are delays in collecting its receivables, it has severe problems on the corporate performance which includes escalated bad debts and reduced customer relations. Poor level of management is revealed in the liquidity and profitability position of the firm. Reviews on the financial statements of manufacturing firms have shown that there have been huge amounts of money written off as bad debts and some of these are as a result of late collection of receivables. This has led to the desire to establish whether credit management has effect on the corporate performance of food and beverage manufacturing companies.

1.3 OBJECTIVE OF THE STUDY

The general objective of this study is to determine the effect of credit management on the corporate performance of firms in the food and beverage manufacturing industry.

Specific objectives include;

1) To ascertain if there is a correlation between clients' appraisal and corporate performance of Quoted food and beverage manufacturing firms in Nigeria.

2) To analyze if there is a relationship between credit risk and corporate performance of Quoted food and beverage manufacturing firms in Nigeria.

3). To determine the relationship between credit policy and corporate performance of Quoted food and beverage manufacturing firms in Nigeria.

1.4 RESEARCH QUESTIONS

1) Is there any relationship between clients' appraisal and corporate performance of Quoted food and beverage manufacturing firms in Nigeria?

2) Is there any significant relationship between credit risk and corporate performance of Quoted food and beverage manufacturing firms in Nigeria?

3) Is there any significant relationship between credit policy and corporate performance of Quoted food and beverage manufacturing firms in Nigeria?

1.5 RESEARCH HYPOTHESES

HYPOTHESIS ONE:

H_0: There is no significant relationship between clients' appraisal and corporate performance of Quoted food and beverage manufacturing firms in Nigeria.

H_1: There is a significant relationship between clients' appraisal and corporate performance of Quoted food and beverage manufacturing firms in Nigeria.

HYPOTHESIS TWO:

H_0: There is no significant relationship between credit risk and corporate performance of Quoted food and beverage manufacturing firms in Nigeria.

H_1: There is a significant relationship between credit risk and corporate performance of Quoted food and beverage manufacturing firms in Nigeria.

HYPOTHESIS THREE:

$H_{0:}$ There is no significant relationship between credit policy and corporate performance of Quoted food and beverage manufacturing firms in Nigeria.

$H_{1:}$ There is a significant relationship between credit policy and corporate performance of Quoted food and beverage manufacturing firms in Nigeria.

1.6 SIGNIFICANCE OF THE STUDY

Many researches have been carried out on the effect of credit management on the performance of firms mostly the banking institutions but not many researches have been carried out on the effect of credit management on corporate performance of manufacturing firms. A study of this type will be very useful to both internal and external financial experts and to the economy as a whole.

1) This study will be of great benefit to the administration of the manufacturing companies. It will assist the management of such companies to predict the future activities and performance of credit actions. It will help in detecting methods that will be better used in reducing the chances of excessive value losses in the market as regards to liquidity consequences. This study will also help the management to access the present condition of the economy and devise prospects about its future course.

2) This study will assist shareholders and potential investors (stakeholders) to make suitable verdicts concerning their investments and operations of the company.

3) This study will also be useful to other researchers as it will be a recommendation for advanced study on the research on credit management and corporate performance and other interrelated areas thereby increasing knowledge on the subject matter.

1.7 SCOPE OF THE STUDY

This study attempts to look at how credit management affects corporate performance. This study was limited to the listed Food and Beverage Manufacturing companies quoted on the Nigerian stock exchange and it is limited to the ones in Lagos because of the availability of data. This study makes use of primary data.

1.8 OPERATIONAL DEFINITION OF TERMS

CREDIT: This is defined as a contractual agreement whereby a customer buys goods of value now and agrees to pay the seller at a later date. Credit management is a system that ensures that the amount of capital tied up with debtors is minimized and the cash flow to ensure stability is maximized for potential growth.

CORPORATE PERFORMANCE: This is a term used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

PROFITABILITY: This is the ability to make profit from all the business activities of an organization. Corporate profitability is the measure of the amount by which a company's revenues exceeds its relevant expenses.

FIRM: This is defined as a commercial organization that operates on a for profit basis and participates in selling goods and services to consumers. A manufacturing firm is a firm that deals with the production of finished goods. It can also be known as a firm involved in the transformation of raw materials into usable consumer goods.

CREDIT POLICY: This is the policy of the firm in relation to the credit terms granted to customers.

CLIENT'S APPRAISAL: This involves checking the background of the customers and their aptitude to pay their debt.

CREDIT RISK: This is the risk taken when credit is granted to a customer, that the customer will fail to pay or delay payment.

CHAPTER TWO

2.0 INTRODUCTION

This chapter sheds more light on the topic of research "effect of credit management on the corporate performance of Quoted Food and Beverage firms in Nigeria" by examining the related literatures to the topic. This chapter will address the conceptual, theoretical and empirical framework of the research topic.

2.1 CONCEPTUAL REVIEW

2.1.1 Concept of Credit Management.

Credit is defined as an arrangement between two parties (one party; the lender / seller, the other party; the receiver / the buyer) where the seller permits overdue payment for its produce instead of cash payment from the buyer (Babalola, Y. A. (2013)). Credit is derived from the Latin word "credo" which has its meaning as 'I believe or I trust', which implies a confidence in another person. The meaning of credit can be better described as 'A contractual agreement in which, a borrower gets something of significance now and comes to an agreement to pay back the lender at some later date. (Pandey, 2002) as cited in Uzoh (2012) stated that trade credit is a source of short-term finance. He also added that credit is an informal agreement between the supplier of goods in the normal course of business. Pandey, (2002) also pointed out that credit granted to a buyer can be seen as accounts receivable, sundry debtors, bills receivable depending on the available one.

Credit management can be seen as the laid out guidelines that states out the terms and conditions for a firm to supply goods on credit to its customers, how receivables will be collected, and the steps to be taken in case the customer cannot fulfil their obligations towards payments

Credit management decreases the amount of capital held up with debtors and reduces debt credit. Dina (2007) as cited in Onuora & Ifeacho (2017) said that good credit management is fundamental to business cash flow it and guarantees smooth business operations. Credit management can be seen as a term used to categorize accounting operations usually organized under accounts receivables. When credit management is proficient, it functions as an exceptional way for the business to stay financially steady. The process of granting credit to customers begins with correctly assessing the credit worthiness of the customer base. This involves evaluating how qualified a customer is to be granted credit.

In countries where financial markets flop, contract execution is insecure, and information is limited, defective and asymmetric/ uneven, trade credit is even more important (Ojenike & Olowoniyi, 2012) cited by (Ojenike et al 2013).

2.1.2 CHARACTERISTICS OF CREDIT

1. There are no official or legal instruments of debts.
2. It is an internal agreement between the buyer and the seller.
3. It is an impulsive form of financing.
4. It is an expensive source of finance, if payment is not made within the discount period.
5. The Goodwill of the buyer and the capacity of the buyer to pay his debts is into consideration.

2.1.3 REASONS FOR GRANTING CREDIT

As seen in Uzoh,2012, Companies may decide to grant credit to their customers for the following reasons;

1. Competition is a major reason why firms may decide to grant credit to its customers. When there is competition in an industry, in order to attract customers for patronage, they decide to grant credit to them.

2. Sometimes, the nature and size of the business may require that goods be traded on credit instead of cash. Nature and size here refers to the credibility of the firm (customer). Big firms that purchase in large quantities may not have enough money to pay for all the purchase immediately.

3. Credit is granted to its customers in order to ensure a long lasting relationship between both parties. when a firm wants to have a long term affiliation with a customer, they try to allow them credit in order for the customers to keep on patronizing them.

4. Selling on credit can be seen as a marketing tool used to launch in new products to the market. When a company introduces a new product into the market and it needs patronage for its product, it can decide to grant credit which will serve as a method of publicizing the product and that could encourage patronage.

2.1.4 TYPES OF CREDIT

There are three types of credit as seen in the handbook "ESTABLISHING A CREDIT POLICY"

1. Open credit: This is a form of credit where you extend short term credit to customers without requiring down payment or additional interest. It is for a period of thirty days.

2. Option terms credit: This type of credit allows a customer to charge up to a limit and pay within thirty days without consequences. The firm can assign a carrying charge for any amount not paid within that time. This type of credit has the features of both open and revolving credit.

3. Revolving credit: This refers to the continuous releasing of credit to the customers as payments are made. This is the most common form of trade credit.

2.1.5 ELEMENTS OF CREDIT

There are various elements of credit and the ones we will be reviewing for the work of this study include; Credit policy, client appraisal and credit risk.

1)CREDIT POLICY: A company's credit policy talks about the activities taken by a business to allow, observe, and accumulate the cash for unresolved accounts receivable (Maysami, 2010). The credit policy of a standard organization contains the resulting variables: collection policy, cash discount, credit period and credit standard, while Miller (2008), categorized it as credit limits, credit term, deposits, customer statistics and records. Each of the constituents of a company's credit policy is used as a tool for observing account receivables which is the aftermath of credit sales; it covers from the kind of customers that credit may be extended to when actual collections would be made.

(Pandey,2004) as cited in Raymond, Adigwe & John (2015) observed that losses from bad debt arise when the firm is not able to collect its accounts receivable. The size of bad debt losses that arises depends on the features of accounts allowed by the firm. (Uchegbu,2001), as seen in Mkandawire (2014) noted that it is clever to discourage bad debts and more effort should be crafted to support discount most especially cash discount.

(Donald and Penne,1987) as seen in Raymond, Adigwe & John (2015) said that debtors or accounts receivable in an organization are claims held against others in the operating circle. Debtors are Trade debtors which are additionally classified into trade debtors and nontrade debtors. The amount that customers owe for goods and service sold when carrying out a business transaction is known as Trade debtors, while The amount that are owed by customers which arises from different alterations which are not goods and could be oral or written promises to pay at a future date is called Non Trade debtors.

Krueger, (2005) stated that credit policy is intended to decrease costs related to credit while make the most of the benefits from it. Credit policy refers to the rules that states how to select which customers are sold on open account, the precise payment terms, the restrictions set on due balances and how to deal with negligent accounts. According to (Pandey, 2007; Atkinson, Kaplan & Young, 2007 and Brigham, 1985) credit policy is defined in the manner as the arrangement of such terms as credit period, credit standards, collection period, cash discounts and cash terms. As a result, regardless of the fact that organizations have different credit policies, the subject matter of these policies must touch on credit period, credit standards, collection period and credit terms. The types of policy that organization have includes stringent policy and lenient policy.

A lenient credit policy is likely to offer credit to customers on very generous terms and standards so that credit is granted for longer periods, even to customers whose credit worthiness is not known well. A stringent credit policy on the other hand is limiting and consents credit only to those customers whose credit worthiness are certain and are financially potent. Two companies cannot have a similar credit policy. Whether the policy adopted by an organization is a lenient or stringent credit policy, it must guarantee that it invites and maintains good customers, without having an adverse impression on the cash flow (Kalunda, Nduku & Kabiru, 2012).

As seen in Lawrence (2003), the purpose of handling accounts receivable is to accumulate receivables without losing sales from high-pressure collection methods. The ability to achieve this objective comprises of; credit selection and standards which include the application of techniques for ascertaining which customer should receive credit. This process involves assessing the customer's creditworthiness and relating it to the firm's credit standard, its least

requirements for granting credit to customers and credit monitoring which involves constant analysis of the firm's account receivable to conclude whether customers are paying in relation to

the specified credit terms. Slow payments are harmful to a firm's venture in accounts receivable. Credit and collection policies incorporates the quality of accounts recognized, the credit period granted, the cash discount allowed, definite special terms and the level of collection expenditure. In each case, the credit decision involves a trade-off between the extra profitability and the cost resulting from a variation in any of these elements. Eugene, (1992), states that the best credit policy that will be adopted for the ideal level of accounts receivable, depends on the firm's distinctive operating environments. A firm with excess capacity and low variable production cost should extend credit more liberally and carry a higher level of receivable than a firm operating at full capacity on slim profit margin.

According to (Chee and Smith (1999), as seen in Kunju, Wanjau, Waititu & Gekara (2014) credit policy is multi-faceted. Miller (2008) debates that there are four reasons why organizations have written credit policies. First, the task of managing receivables is a serious responsibility. It involves controlling bad debts and increasing cash flow. Unsettled receivables become an important asset of a firm and it therefore requires a rational and organized approach, therefore credit management is necessary. Secondly, a credit policy guarantees a degree of uniformity in the midst of departments. By writing down what is projected, the goals of the company (whether marketing, production or finance) will realize that they have a common goal. Also, a written policy can demarcate the functions of each department so that repetition of effort and pointless discord are avoided. Also, it provides for a steady approach among customers. Making decision becomes a reasonable function based on pre-determined factors. This makes simpler the decision process and produces a sense of equality that will only develop relationship with customers. On a final note, it can make available some recognition of the credit department as a distinct entity, one which is

worthy of making available contribution into the overall policy of the firm. This allows the department to be a vital resource to the top level of management (Kalunda et al., 2012).

2)CLIENT APPRAISAL

Client appraisal is an element of credit management. It is a useful and tested tool used by banks and other firms when determining whether or not to grant credit to its customers. The first step in controlling credit risk comprises examining clients to ensure that they have the readiness and capability to refund a loan(banks) or to pay for goods purchased (manufacturing companies). As seen in Gatuhu (2013), Client appraisal has 5Cs model of credit to appraise a buyer as a potential debtor (Abedi, 2000). The 5Cs help organizations to increase corporate performance, as they get to know their customers better. These 5Cs are: character, capacity, collateral, capital and condition.

Character – This refers to the reliability and honesty of the business owners. It is an indication of the customer's willingness to fulfil payment of goods purchased.

Capacity - This assesses whether the flow of cash of the business is sufficient for repayments.

Capital – This refers to the assets and liabilities of the business**.**

Collateral – This refers to the right to use an asset that the customer is willing to concede in the case of non-payment, or a guarantee by a respected person to repay a loan in default.

Conditions - This refers to a business plan that contemplates the level of competition and the facility for the product or service, and the legal and economic environment.

The 5Cs is essential and must be included in the credit scoring model. The credit scoring model is an arrangement procedure in which data that is collected from the application forms for new or expanded credit line are used to allocate credit applicants to "good" or "bad" credit risk modules.

2.1.6 CREDIT RISK: Credit risk is a tool used by companies to evaluate credit management. Managing credit risk is a multifaceted multidimensional issue and as a result of these, there are a number of different tactics in use, some of which are quantifiable while others involve descriptive judgements. Whatever the technique used, the key factor is to know the performance and forecast the likelihood of particular credits evading on their obligations. When the amount that can be lost from an evasion by a particular set of firms are the same, a higher probability of loss is indicative of larger credit risk. In cases where the amount that can be lost is not the same, we need to consider not just the likelihood of avoidance but also the anticipated loss given default. Establishing which counterparty may fail to pay is the art and science of credit risk management. Different approaches use judgement, deterministic or correlation model or use statistical modelling in order to categorize credit quality and foresee likely default. Once the credit estimation process is complete, the amount of risk to be taken can then be ascertained.

Credit risk can be defined as 'the possibility that a contractual party will fail to meet its obligations in accordance with the fixed terms'. Credit risk is also differently referred to as default **risk**, performance risk or counterparty risk. These all basically refer to the same thing: the effect of credit on a firm's activities. There are three features that define credit risk:

1. Exposure (to a party that may probably default or suffer a hostile change in its ability to perform).

2. The possibility that this party will evade on its obligations (the default probability).

3. The recovery rate (that is, how much can be retrieved if a default takes place). Note that, the larger the first two elements, the greater the exposure. On the other hand, the higher the amount that can be recovered, the lower the risk. Formally, we can express the risk as:

Credit risk = Exposure *Probability of default *(1- Recovery rate)

2.1.7 ADVANTAGES OF GRANTING CREDIT

The following are the advantages of granting trade credit as cited by (Woodruff,2019)

1. Increased sales: A customer will purchase more of the supplier's goods and services if he doesn't have to pay immediately.

2. Customer loyalty: When a seller extends credit to the customer, it sends a message to the customer that the seller considers them reliable and trustworthy and has confidence in them that they will make payment as at when due.

3. Competitive advantage: When a seller offers trade credit to the buyer, the seller has an advantage over his competitors, those that do not grant credit. This is sensible because a buyer that is purchasing in large quantities will not be able to pay for everything at once but the credit facility has helped him to purchase without having to pay money all at once.

4. Incentives for customers to pay: when sellers grant credit to customers, let's say 30 days and then you offer them a discount of 4% if they pay in 15 days, the customers will be encouraged and motivated to pay sooner.

2.1.7 DISADVANTAGES OF GRANTING CREDIT

The following are the disadvantages of credit as cited by (Woodruff,2019)

1. Negative effect on cash flow: The closest effect of trade credit is that sellers do not receive cash immediately for the sales they make. Extending credit terms to buyers create a hole in their companies' cash flow because the sellers also have bills to settle.

2. Investigation of credit worthiness of customers: The same way a bank has to analyze their credit ratings which involves credit scoring and a lot of money, that is the same way it is for sellers. The

seller might need to hire a professional analyst to help with decision making for credit management.

3. Bad debts: The greatest risk of granting credit is that of bad debt. Bad debts are the major losses of any business and can take away the whole of the earnings of the company. A supplier should always stick to the terms of credit and should not attempt to extend irrational terms to any buyer.

4. Monitoring and financing of accounts receivables: the credit extension process leads to the creation of more outstanding accounts receivables and it needs to be monitored so that they pay on time. Since the extension of credit means that the seller has to finance the receivables, the seller might have to depend on his suppliers for trade credit, borrow from the bank and all of these methods have an innate cost on capital.

2.1.8 CONCEPT OF FINANCIAL PERFORMANCE.

Corporate performance is a mixture of financial and non-financial performance. The non-financial performance is assessed in terms of enlarged production; market growth; and enhanced quality, while financial performance is assessed in terms of profitability, firm's valuation and liquidity (Pandey, 2010). The concept of profitability may be used in two views: commercial/private profitability and public profitability. The use of public profitability which is based on the economist's view of costs and benefits which is opportunity cost and the benefits for the economy as a whole, seems to be a more appropriate quantification of performance of public enterprises but the evaluation of commercial profitability has been used in this study. This is as a reason of fact that commercial profitability is extensively used to assess the performance of public enterprises and also because it is largely acceptable and easily understandable. The point that profit is essential for the long-term existence and growth of the firm, should not be that all management decisions

should be profit-centered at the detriment of the interest for customers, employees, suppliers or social significances. Profit is the variance between proceeds and costs over an extent of time (typically one year). Profit is the final “output” of a firm, and there will be no future for any firm that fails to make sufficient profit (Sandhar & Janglani, 2013).

Even though a business organization survives as a going-concern, business activities are disclosed in time periods, typically 12 months, known as an accounting year. At the end of an accounting year, the entire revenues (operating and non-operating) and aggregate expenses (operating and non-operating) of a firm are matched (matching concept) to decide whether the firm has generated a profit or loss (Arnold, 2008). The net profit or income, which is a gauge of the firm’s advantageous operations, is the excess of total revenues above total expenses throughout the accounting year. The firm may be insolvent if total expenses exceed total revenues, known as net loss (ICAN, 2009). There are several useful concepts of profit. They include;

Gross profit (GP): This is the variance between sales and cost of goods sold (COGS);

Profit before depreciation, interest and tax (PBDIT): This is equal to the difference between revenue and all operating expenses except depreciation, interest and tax;

Operating profit (OP) or Profit before interest and tax (PBIT): This is the difference between GP and operating expenses containing general and administrative expenses, selling and distribution expenses, and depreciation;

Profit before tax (PBT): This is the difference between PBIT and Interest Charges;

Profit after tax (PAT) or Net profit (NP): This is the difference between PBT and tax;

Net operating profit after tax (NOPAT): This is PBIT minus tax on PBIT (Pandey, 2010).

In agreement with Ajanthan (2013), profitability is an extent of the amount by which a company's revenues surpass its relevant expenses. It is an estimation of management's capacity to generate

incomes from revenue-generating bases in an organization. Hence, Management is with measuring the operating performance in relation to profitability. Hence, a low profit margin would suggest unproductive management and investors would be uncertain to invest in the firm. The distress of every firm lies with its profitability. Profitability is the ability to make revenues from all the business activities of an organization, company, firm, or an enterprise. It shows how efficiently the management can make profit by using all the resources available in the market (Ajanthan, 2013).

Profitability and management competence are regularly taken to be positively related such that poor current profitability may threaten current management productivity and poor management proficiency may threaten profitability (Gill & Mathur, 2011). It is linked to the goal of shareholders' wealth expansion, and venture in current assets is made only if an acceptable profit is obtained (Ibbotson, Chen, Kim & Hu, 2013; Sandhar & Janglani,2013). Profitability can also be labelled as the rate of yield on investment and an extensively used financial yardstick for performance. Hence, if there will be an indefensible over investment in current assets then this would adversely affect the rate of return on investment (Vishnani & Shah, 2007).

The larger the risk linked to a business the more profitable it is declared and vice-versa. Profitability is verified by the capital structure, size, evolution, market discipline, risk and reputation of a firm (Agyei & Yeboah, 2011).

Profitability is evaluated using ratio analysis. Profit is a definite measure and profitability is a comparative measure of productivity of the actions of a firm. Two main types of profitability ratios are calculated in relation to sales and investment. Profitability in relation to sales include ratios such as: Gross profit margin (GPM), Net profit margin (NPM), and Operating expense ratio (OER) etc. While profitability in relation to investment, which to a greater extent validates the proficiency

and performance of a firm, include ratios such as Return on investment (ROI), Return on equity (ROE), Earnings per share (EPS), Dividend per share (DPS), Dividend pay-out ratio (DPR), Dividend yield (DY) and Earnings yield (EY), Price earnings ratio (P/E), market value to book value ratio (MV/BV), and Tobin's Q (T-Q) (Sandhar & Janglani, 2013; Pandey, 2010; ICAN, 2009).

According to the business dictionary, financial performance involves assessing the results of a firm's policies and operations in financial (monetary) terms. These results are shown in the firms Return on investment, return on assets and the value added. (Stoner,2003) as cited in Turyahebya (2013), defines financial performance as the capability to function professionally, beneficially, persist, grow and respond to the environmental chances and threats. In conformity with this, (Sollenberg and Anderson (1995) as cited in Gatuhu (2013) stresses that, performance is measured by how effectual the enterprise is in its use of resources in realizing its objectives. (Hitt, et al ,1996) as seen in Gatuhu (2013) believes that the result of poorly performing assets goes a long way to affect the performance of the firm. Food and beverage industries earn financial revenue from the sale of their goods. Financial revenue furthermore includes income from other economic assets, such as investment income.

2.2 THEORETICAL REVIEW

2.2.1 TRANSACTION COST THEORY.

The transaction theory was first developed by Schwartz (1974), this theory estimates that suppliers may have an advantage over traditional lenders in checking the actual financial situation or the credit worthiness of their clients. Suppliers also have an enhanced skill to monitor and influence repayment of the credit. All these controls may give suppliers a cost advantage when related with

financial institutions. There are three sources of cost advantage which were classified by Petersen and Rajan (1997) as follows: acquisition of information, controlling the buyer and retrieving value from existing assets. The first source of cost advantage can be described by the fact that sellers can gather facts about buyers faster and at a lower cost because it is gotten in the normal course of business. That is, the rate of occurrence and the sum of the buyer's orders give the suppliers an idea of the client's situation; the buyer's refusal of discounts for timely payment may assist to alert the supplier of a failure in the credit-worthiness of the buyer, and sellers frequently visit customers more often than financial institutions do.

As cited by Kungu, Wanjau, Wititu & Getara (2014,) the transaction motive theory of trade credit proposes that businesses should make trade credit available by reducing the cost of giving out invoices between suppliers and buyers carrying out steady exchanges of goods and services (Nilsen, 2002). Industrial firms go through strong seasonality and insecurity in the demand for their products and may have to develop large inventories in order to uphold their production points. By granting credit, firms may be able to manage their inventory positions better and decrease warehousing costs. As seen in Gatuhu (2013) studies that have been made on transaction costs have shown that transaction costs take place when a good or a service is conveyed across a technologically separate interface. Hence, transaction costs result from every time a product or service is being conveyed from one phase to another, where fresh sets of technological aptitudes are desired to make the product or service. Therefore, it may even be more profitable to uphold the activity in-house, so that the company will not make use of resources outside. For example, contacts with suppliers, gatherings and supervision. Managers should therefore evaluate the internal transaction costs in contrast to the external transaction costs, before the company resolves to whether or not to keep some activity in-house (Williamson, 1981).

2.2.2 Asymmetric Information Theory

As seen in Gatuhu (2013), Information asymmetry defines the condition in which significant information is not known to all parties concerned in an undertaking (Ekumah and Essel, 2003). As seen in Kungu, Wanjau, Wititu & Getara (2014), asymmetric information theory proposes that the firm that offers credit to its customers has a benefit over other credit providers in evaluating the credit worthiness of his customers (Chee & Smith, 1999; Nilsen, 2002).

Information asymmetry refers to a situation where owners of business or managers know better about the prospects for, and perils facing their business than lenders do. (PWHC, 2002) cited in Eppy.I (2005) defines asymmetric information as a condition in which every party involved in an undertaking do not identify significant information. In a debt market, information asymmetry occurs when a borrower who receives a loan generally has better information about the possible risks and proceeds connected with investment projects for which the funds are reserved. The lender on the other hand does not have adequate information regarding the borrower (Edwards and Turnbull, 1994). (Binks et al ,1992) as seen in Onuora and Ifeacho (2017) argues that observed information asymmetry positions two problems for banks which includes: moral hazards (observing entrepreneurial behavior) and adverse selection (making errors in lending decisions). Banks will find it hard to overcome these difficulties because it is not reasonable to dedicate funds to appraisal and monitoring where loaning is for moderately small amounts. This occurs because data that is needed to assess credit applications and scrutinize borrowers are not easily accessible to banks. Bankers go through a situation of information asymmetry when evaluating lending applications (Binks and Ennew, 1996, 1997). The information that is essential to gauge the capability and obligation of the entrepreneur, and the forecasts of the business is either not available, improvident to achieve or hard to understand. This creates two types of risks for the

Banker (Deakins, 1999). As seen in onuora and ifeacho (2017), these risks include: The risk of adverse selection which happens when banks grant advances to businesses which consequently fail *(type II error),* or when they do not give loan to businesses which then become fruitful, or have the capability to do so *(type I error)* Altman (1971).

Derban, Binner and Mullineux (2005) suggested that borrowers should be screened especially by banking institutions with the method of credit assessment. Collection of reliable information from prospective borrowers becomes hard in accomplishing effective screening as indicated by symmetric information theory. Qualitative and quantitative techniques can be used in measuring the borrowers, even though one main test of using qualitative models is their biased nature. However, in agreement with Derban, Binner and Mullineux (2005), borrowers' attribute that are evaluated through qualitative models can be allotted numbers with the amount of the values measured up to a threshold. This technique reduces administration costs, decreases biased judgments and likely biases. The assessment systems will be significant if it specifies variations in probable level of credit loan loss. (Brown Bridge, 1998) as seen in Gatuhu (2013) established that quantitative models make it likely to mathematically establish which elements are vital in clarifying default risk, assessing the comparative degree of significance of the elements, improving the valuing of default risk, screening out hazardous loan applicants and estimating any amount set aside which is desired to meet predictable future loan losses.

2:2:3 Portfolio Theory

Ever since the 1980s, companies have positively used recent portfolio theory to market risk. Many companies are now making use of value at risk models to be able to manage their interest rate and market risk disclosures. Unfortunately, still, even when credit risk continues to remain the major risk that most companies face, the custom of applying modern portfolio theory to credit risk has

lingered (Margrabe, 2007) as cited by Onuora and Ifeacho (2017). Companies identify how credit applications can unpleasantly impact financial performance. Because of that, a number of institutions are vigorously engage in quantitative approaches to credit risk measurement. They are also making use of credit results to transfer risk proficiently while conserving customer relationships. Portfolio value ratios and efficiency pointers have been adapted. (Kairu,2009). The grouping of these growths has massively enhanced progress in handling credit risk in a portfolio context.

Traditionally, organizations have taken an asset-by-asset approach to credit risk management. While each company's method varies, in general this approach involves periodically evaluating the quality of credit exposures, applying a credit risk rating, and aggregating the results of this analysis to identify a portfolio's expected losses. The foundation of the asset-by-asset approach is a sound credit review and internal credit risk rating system. This system enables management to identify changes in individual credits, or portfolio trends in a timely manner. Based on the changes identified, credit identification, credit review, and credit risk rating system management can make necessary modifications to portfolio strategies or increase the supervision of credits in a timely manner. While the asset-by-asset method is a significant factor to handling credit risk, it does not provide a comprehensive opinion of portfolio credit risk, where the term risk denotes the likelihood that definite losses exceed anticipated losses. As seen in Onuora and Ifeacho (2017), to expand better insight into credit risk management, companies gradually look to balance the asset-by-asset approach with a measureable portfolio evaluation making use of a credit model (Mason and Roger, 1998). Companies progressively try to tackle the incapability of the asset-by-asset method to quantity unforeseen losses adequately by carrying out a portfolio methodology. One flaw with the asset-by-asset approach is that it is hard recognizing and gauging concentration. Concentration

risk refers to extra portfolio risk arising from enlarged disclosure to credit allowance, or to a group of connected creditors (Richardson, 2002).

In an abstract, the transaction cost theory best conforms to credit management of manufacturing firms because it has a relationship between the supplier and the customer, whereby the manufacturing firm is the supplier conceding the credit while the client it the customers or the defaulters of the business. This theory has the elements which the creditor will take into consideration before granting credit to its customers and such elements include: the information about the customer`s capability to pay on time, the features of the firm`s financial statement and it is inexpensive to operate. Finally, transaction cost theory covers all the attributes of credit management and is therefore selected as the character that best defines credit management.

2.3 EMPIRICAL REVIEW

Ojeka (2012) considered four manufacturing companies in Nigeria. He made use of annual reports and accounts of the selected companies alongside with questionnaire. His results discovered that when a company's credit policy is satisfactory, liquidity is at an appropriate level. He additionally found that companies which observe and often evaluate their credit policy and decrease cash discount allowances accomplish quite well in terms of liquidity position and profitability.

Uremadu, Egbido and Enyi (2012) carried out a study in Nigeria on working capital management, liquidity and corporate profitability of quoted manufacturing firms. The study made use of a cross sectional time series data for the period 2005 - 2006. Debtors collection period was used as a substitute for credit policy and signified the duration it takes the companies to accumulate proceeds of sales from their debtors. The study established a partial and non-significant relationship between debtors' collection period and corporate profitability on liquidity among quoted companies in Nigeria.

Onuora and Ifeacho (2017) did a study on the profitability of manufacturing firms using five quoted firms in Nigeria stock exchange. The variables used were credit policy, liquidity management and debtors' turnover which were measured using Return on Assets. Data was sourced from annual reports of selected companies. It provides evidence from five manufacturing firms for a period of 2010 – 2014. The result reveals that credit policy and liquidity management have significant negative relationship to Return on Assets, while debtors turnover has significant positive effect to Return on Asset. The researcher recommended that adequate credit policy must be employed by the sales department of the firm for effective operation.

Nyawera, (2013) considered the effect of credit policy on the profitability of micro financial institutions in Kenya. The study ascertained that there was a relationship between credit policy variables and profitability but the effect was very little. Empirical evidence from the study indicated that there was a negative relationship between credit terms and conditions and collection efforts which increased the profitability of the organizations and also reduced the collection efforts which in turn led to decreasing default rate of the organization hence increasing the financial performance of the deposit taking micro finance institutions. The study also found that the other variables which included credit standards had a positive effect on profitability of micro finance.

organization. The conclusion was that implementation of a good credit policy in an organization led to increased financial performance.

According to Simonson *et al.,* (2011), sound credit policy would help to develop prudential oversight of the quality of asset, establish a set of minimum principles, and relate a common language and methodology (assessment of risk, pricing, documentation, securities, authorization, and ethics), for the measurement and giving details of nonperforming assets.

Richard (2015) did a review on the effect of credit management on firm profitability with evidence from savings and co-operatives in Kenya (SACCO). The study made use of explanatory research design. The findings pointed out that credit debt collection, credit risk assessment, credit granting decision, credit debt collection and credit policy play an important role in improving firm profitability. Thus management needs to put in place sound credit management to prevent late payment by debtors hence an increase in profitability. It is also prudent for the management of SACCOs to certify that a proficient credit policy and also give assurance to the stakeholders on the SACCOs ability to meet its financial obligations as when due either in favorable or unfavorable economic conditions. The study affirmed a strong support for the argument that credit granting decision affects firm profitability at a high rate and thus management should be willing to implement it in order to increase financial viability. SACCOs should ensure that debts are paid in time so that they cannot face financial constraints due to bad debts.

Kagoyire and Shukla (2016) sought to determine the effect of credit management on the financial performance of commercial banks in Rwanda. The study adopted a descriptive survey design. The target population of study consisted of 57 employees of Equity bank in credit department. Entire population was used as the sample giving a sample size of size of 57 employees. Purposive sampling technique was used in sampling where the entire population was included in the study. Primary data was collected using questionnaires which were administered to the respondents by the researcher. Descriptive and inferential statistics were used to analyze data. The study found that client appraisal, credit risk control and collection policy had effect on financial performance of Equity bank. The study established that there was strong relationship between financial performance of Equity bank and client appraisal, credit risk control and collection policy. The study established that client appraisal, credit risk control and collection policy significantly

influence financial performance of Equity bank. Collection policy was found to have a higher effect on financial performance and that a stringent policy is more effective in debt recovery than a lenient policy. The study recommends that Equity bank should enhance their collection policy by adapting a more stringent policy to a lenient policy for effective debt recovery.

Muriuki (2014) sought to determine the effect of credit policy on profitability of manufacturing SMEs in Nairobi County. The study adopted a descriptive research design. The target population was all the manufacturing in Nairobi County from which 50 SMEs were sampled. The study used secondary data which was obtained from SMEs financial statement for five years from 2009 to 2013. Multiple regression analysis was used to analyze data. The significance of the results was tested using t-test, z tests and the ANOVA. The study found that credit policy is positively related to manufacturing SMEs profitability with a coefficient of correlation of 0.83 and coefficient of determination of 0.69. Credit policy was also found to have strong positive relationship with growth in sales as shown by coefficient of correlation of 0.896 and R square of 0.804.

CHAPTER THREE

RESEARCH METHODOLOGY

This section basically refers to the ideologies underlying the carrying out of this research. The methodologies are the various approaches and procedures used by the researcher in the course of gathering and evaluating data with the purpose of finding solutions to the problem.

3.1 RESEARCH DESIGN

Research design is an overall plan of how you will go about giving answers to research questions., identify the bases from which you will gather your data and how you plan to evaluate them (Saunders and Philip, 2012). The research design for this research is the survey research method.

3.2 POPULATION OF THE STUDY

The population of this study comprises of all 16 quoted food and beverage manufacturing firms on the floor of the Nigerian stock exchange as at 1st of January 2019 and this study is limited to those ones with their locations in Lagos, Nigeria because of its ease of data collection.

3.3 SAMPLING TECHNIQUE

The sampling technique used is the random sampling technique. This technique is applied centered on the necessity to choose a sample based on the accessibility of essential information and data to accomplish the objective of the study.

3.4 SAMPLE SIZE DETERMINATION

The sample size is the quota of the total population which the researcher made use of in the study. Ezejuele & Ogwo (1990) stated that a minimum of 10% of the population in consideration is considered appropriate for sampling. But, to get a clearer picture, more than 10% will be used for

this study. Five out of the sixteen quoted food and beverage manufacturing industries in Nigeria were chosen.

3.5 METHOD OF DATA COLLECTION

This research made use of primary method of data collection. The data for this study signifying credit management and corporate performance measures was gathered through the administration of questionnaires.

3.6 RESEARCH INSTRUMENT

The research instrument of data collection used in this research is questionnaire. A questionnaire is a document that contains a set of questions for requesting for information from respondents on the subject of the research investigation (Agouni fon & Yomere, 2016). The questionnaire is designed in the ordinal scale with the use of Linkert-type scale of strongly agree, agree, undecided, strongly disagree and disagree. It consists of two sections; the first section is based on the socio-demographic variables of the respondent's. E.g. age sex, and occupation etc. while the second part is based on the research questions.

3.7.1 VALIDITY OF RESEARCH INSTRUMENT

(Allen & Yen, 1979) as cited in Rosemary (2013), defined validity as the level to which the instrument measures what it is meant to measure. Validity refers to the degree which the instrument fully measures the study of interest. The questionnaire will be reviewed by the supervisor who will assess all the features of the questionnaire and check the construction of the sentences

3.7.2 RELIABILITY OF TEST

The reliability of a research instrument concerns the extent to which the instrument yields the same results on repeated trials. As cited in Rosemary (2013), the propensity towards consistency found in recurring dimensions is referred to as reliability (Carmines & Zeller, 1979).

3.8 METHOD OF DATA ANALYSIS

The research makes use of a number of statistical procedures that helps to observe the research hypothesis, these procedures includes; reliability and validity test, frequency analysis, independent sample test statistics, correlation matrix, linear regression, and sample regression. The data gathered through questionnaires was analyzed using Statistical Package for the Social Sciences(SPSS) software package version 21.

3.9 MODEL SPECIFICATION

$CP = \alpha_1 + \lambda_1 CA + \beta_1 CR + \delta_1 CRP + \varepsilon_t$

CP= f(CM)

CP= f (CA, CR, CRP)

Where;

CP = Corporate performance

CR = Credit risk

CA= Credit appraisal

CRP = Credit policy.

$\varepsilon_t =$ Error term.

a_1 = constant.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULT

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the field on the effect of credit management on the financial performance of food and beverage manufacturing industries in Nigeria. Descriptive and inferential statistics were used to discuss the findings of the study. The study targeted a population of 120 respondents from which 100 filled and returned the questionnaires making a response rate of 83.3%. This response rate was satisfactory to make conclusions for this study.

4.2 DATA ANALYSIS AND INTERPRETATION

4.2.1. DESCRIPTIVE ANALYSIS

I)DEMOGRAPHICS

Table 4.1:Gender of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	49	49.0	49.0	49.0
	Female	51	51.0	51.0	100.0
	Total	100	100.0	100.0	

Table 4.1 shows the breakdown of the respondents according to their gender. There were 49 males amounting to 49% and 51 females amounting to 51%. This result shows that there were more females than the males that participated when carrying out this study.

Table 4.2: Age of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18-30	29	29.0	29.0	29.0
	31-40	34	34.0	34.0	63.0
	41-50	21	21.0	21.0	84.0
	51-60	16	16.0	16.0	100.0
	Total	100	100.0	100.0	

The age brackets of the respondents were shown in Table 4.2. Between age brackets 18-30 there were 29 respondents amounting to 29% of the sample, 34 respondents fall within 31-40 age bracket accruing to 34%, 21 respondents were in the 41-50 age group amounting to 21%, while there were 16 respondents in the 51-50 age bracket amounting to 16%. This result reveals that majority of the participants are between the age bracket of 31 to 40.

Table 4.3: Marital Status of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	28	28.0	28.0	28.0
	Married	67	67.0	67.0	95.0
	widow/widower	4	4.0	4.0	99.0
	Separated	1	1.0	1.0	100.0
	Total	100	100.0	100.0	

Table 4.3 analyzed the frequencies of the marital status of respondents. There were 28 singles amounting to 28%, 67 married respondents accruing to 67%, 4 widow/widower amounting to 4% and 1 in a separated group amounting to 1%.

Table 4.4:Educational qualification

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Graduate	18	18.0	18.0	18.0
	Postgraduate	82	82.0	82.0	100.0
	Total	100	100.0	100.0	

Table 4.4 displayed the educational qualification of the respondents. There were 18 graduates amounting to 18%, while 82 respondents were postgraduate holders amounting to 82%.

Table 4.5: Years of Experience

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-5 years	22	22.0	22.0	22.0
	6-10 years	40	40.0	40.0	62.0
	11-15 years	19	19.0	19.0	81.0
	16-20 years	19	19.0	19.0	100.0
	Total	100	100.0	100.0	

Table 4.5 displayed the years of experience of the respondents in their work place. 22 respondents have spent 1-5 years at work amounting to 22%, 40 respondents have spent 6-10 years amounting to 40%, 19 respondents have spent 11-15 years accruing to 19% while those who have spent 16-20 years are 19 amounting to 19%. In essence 81% have spent less than 16 years at work.

II) DESCRIPTIVE STATISTICS

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
This company has competent personnel for carrying out client appraisal	100	5	6	5.40	.492
Client appraisal considers the character of the customers seeking credit facilities.	100	4	6	4.89	.650
Aspects of collateral are considered while appraising clients.	100	3	5	4.38	.565

Failure to assess customers' capacity to repay results in loan defaults.	100	5	6	5.47	.502
Imposing credit limits is a viable strategy in credit management of this company.	100	5	6	5.55	.500
The use of credit checks on regular basis enhances credit management in this company.	100	5	6	5.45	.500
Flexible repayment periods improve liquidation of credit sales	100	3	5	4.42	.535
Penalty for late payment of amount due enhances customers'	100	4	6	5.35	.657

commitment to early payment.					
Formulation of collection policies have been a challenge in credit management	100	4	6	5.25	.716
Available collection policies have assisted towards effective credit management	100	4	6	4.66	.699
Enforcement of guarantee policies provides chances for recovery of outstanding debts in case of defaults.	100	4	5	4.42	.496
Staff incentives are effective in improving recovery of outstanding debts	100	2	5	3.47	.979

Regular reviews have been done on collection policies to improve state of credit management.	100	4	6	4.78	.675
This company enjoys a high level of sales	100	5	6	5.41	.494
This company enjoys a reasonable level of profit	100	5	6	5.47	.502
The revenue of this company exceeds the expenses	100	5	6	5.43	.498
Valid N (list wise)	100				

The table above shows the minimum and maximum responses for each statement. It also shows the mean and standard deviation for each statement.

CLIENT APPRAISAL

1)Client appraisal is a viable strategy for credit management in this company

	Frequency	Percent	Valid Percent	Cumulative Percent

Valid	fairly disagree	1	1.0	1.0	1.0
	fairly agree	1	1.0	1.0	2.0
	agree	42	42.0	42.0	44.0
	strongly agree	56	56.0	56.0	100.0
	Total	100	100.0	100.0	

This table shows that 1% of the sample fairly disagree with this statement, 1% fairly agree with this statement, 42% agree with this statement and 56% strongly agree with this statement.

2)This company has competent personnel for carrying out client appraisal

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	agree	60	60.0	60.0	60.0
	strongly agree	40	40.0	40.0	100.0
	Total	100	100.0	100.0	

60% of the sample agree with this statement while 40% strongly agree with this statement.

3)Client appraisal considers the character of the customers seeking credit facilities.

		Frequency	Percent	Valid Percent	Cumulative Percent

Valid	fairly agree	27	27.0	27.0	27.0
	agree	57	57.0	57.0	84.0
	strongly agree	16	16.0	16.0	100.0
	Total	100	100.0	100.0	

The table above shows that 27% of the sample fairly agrees with the statement, 57% agrees while 16% strongly agrees with the statement.

4)Aspects of collateral are considered while appraising clients.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	fairly disagree	4	4.0	4.0	4.0
	fairly agree	54	54.0	54.0	58.0
	agree	42	42.0	42.0	100.0
	Total	100	100.0	100.0	

This table explains that 4% disagree with the statement, 54% fairly disagree and 42% agrees.

5)Failure to assess customers' capacity to repay results in loan defaults.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	agree	53	53.0	53.0	53.0

	strongly agree	47	47.0	47.0	100.0
	Total	100	100.0	100.0	

The table indicates that 53% agree with the statement while 47% strongly agree with the statement.

CREDIT RISK

6)Imposing credit limits is a viable strategy in credit management of this company.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	agree	45	45.0	45.0	45.0
	strongly agree	55	55.0	55.0	100.0
	Total	100	100.0	100.0	

This means that 45% of the sample agree with this statement and 55% strongly agree.

7)The use of credit checks on regular basis enhances credit management in this company.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	agree	55	55.0	55.0	55.0
	strongly agree	45	45.0	45.0	100.0

	Total	100	100.0	100.0	

From the table above, 55% of the sample agree with this statement while 45% strongly agree

8)Flexible repayment periods improve liquidation of credit sales

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	fairly disagree	2	2.0	2.0	2.0
	fairly agree	54	54.0	54.0	56.0
	agree	44	44.0	44.0	100.0
	Total	100	100.0	100.0	

From the table above, 2% of the sample fairly disagree with this statement, 54% fairly agree and 44% agree with this statement.

9)Penalty for late payment of amount due enhances customers' commitment to early payment.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	fairly agree	10	10.0	10.0	10.0
	agree	45	45.0	45.0	55.0
	strongly agree	45	45.0	45.0	100.0
	Total	100	100.0	100.0	

From the table above 19% of the sample fairly agree with this statement, 45% agree and 45% strongly agree.

CREDIT POLICY:

10)Formulation of collection policies have been a challenge in credit management

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	fairly agree	16	16.0	16.0	16.0
	agree	43	43.0	43.0	59.0
	strongly agree	41	41.0	41.0	100.0
	Total	100	100.0	100.0	

16% of the sample fairly agree, 43% agree and 41% strongly agree with the statement.

11)Available collection policies have assisted towards effective credit management

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	fairly agree	47	47.0	47.0	47.0

agree	40	40.0	40.0	87.0
strongly agree	13	13.0	13.0	100.0
Total	100	100.0	100.0	

47% of the sample fairly agree with the statement, 40% agree and 13% strongly agree.

12)Enforcement of guarantee policies provides chances for recovery of outstanding debts in case of defaults.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	fairly agree	58	58.0	58.0	58.0
	agree	42	42.0	42.0	100.0
	Total	100	100.0	100.0	

58% of the sample fairly agree with this statement while 42% agree with the statement.

13)Staff incentives are effective in improving recovery of outstanding debts

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	disagree	22	22.0	22.0	22.0

	fairly disagree	22	22.0	22.0	44.0
	fairly agree	43	43.0	43.0	87.0
	agree	13	13.0	13.0	100.0
	Total	100	100.0	100.0	

22% of the sample agree with this statement, 22% fairly degree, 43% fairly agree and 13% agree to this statement.

14)Regular reviews have been done on collection policies to improve state of credit management.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	fairly agree	36	36.0	36.0	36.0
	agree	50	50.0	50.0	86.0
	strongly agree	14	14.0	14.0	100.0
	Total	100	100.0	100.0	

36% of the sample fairly agree with this statement, while 50% agree to it and 14% strongly agree to it.

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15)This company enjoys a high level of sales

		Frequency	Percent	Valid Percent	Cumulative Percent

Valid	agree	59	59.0	59.0	59.0
	strongly agree	41	41.0	41.0	100.0
	Total	100	100.0	100.0	

59% of the sample agree with this statement while 41% strongly agree.

16)This company enjoys a reasonable level of profit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	agree	53	53.0	53.0	53.0
	strongly agree	47	47.0	47.0	100.0
	Total	100	100.0	100.0	

53% of the sample agree with this statement, while 47% strongly agree.

17)The revenue of this company exceeds the expenses

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	agree	57	57.0	57.0	57.0
	strongly agree	43	43.0	43.0	100.0

	Total	100	100.0	100.0	

57% of the sample agree with the statement while 43% strongly agree.

4.3 TEST OF HYPOTHESES

HYPOTHESIS 1:

OBJECTIVE 1 - To ascertain if there is a relationship between client's appraisal and corporate performance of quoted food and beverage manufacturing firms in Nigeria.

H_0: There is no significant correlation between clients' appraisal and corporate performance of quoted food and beverage manufacturing firms in Nigeria.

H_1: There is a significant correlation between clients' appraisal and corporate performance of food and beverage manufacturing firms in Nigeria.

Table 4.6.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.202[a]	.041	.031	.483

a. Predictors: (Constant), Clients appraisal

Source: Researcher's computation, 2019

The model summary shows the predictive power of the model. 'R' is the correlation coefficient between the dependent variable (observed) and the independent variable(s) (the predictor(s). The significance of R indicates the direction of the relationship (positive or negative). The value of R ranges from -1 to 1. The absolute value of R indicates the strength, with larger absolute value indicating strong relationship.

In Table 4.6.1, R= O.202. This means that there is a low (20.2%) positive relationship between the client's appraisal and financial performance.

The R squared (coefficient of determination) shows the degree of linear- correlation of variables (goodness of fit) in regression analysis. This is the proportion of variation in the dependent variable explained by the regression model. In other words, it shows the extent to which the independent variable(s) can explain the variance in the dependent variable. The sample R squared tends to be optimistically estimate how well the model fit the population.

Table 4.6.1, shows R square of 0.041, which means that clients appraisal can only explain 4.1% variation in the value of financial performance while holding other independent variables constant. Adjusted R square only adjusts for the number of variables in the regression model. Standard error of the estimate is the standard deviation of the residuals. It attempts to correct R squared more closely to reflect the goodness of fit of the model. It is also R squared value adjusted for the number of variables in the regression model. The value of Adjusted R in this table is 0.031.

The standard error of estimates is the standard deviation of the residuals. As R squared increases, the standard error of the estimate decreases. In other words, a better fit leads to less estimate error. It is an important indicator of how precise an estimate of the population parameter the sample statistic is.

Table 4.6.2: **ANOVA[a]**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.971	1	.971	4.169	.044[b]
	Residual	22.819	98	.233		
	Total	23.790	99			

a. Dependent Variable: financial performance

b. Predictors: (Constant), Clients appraisal

Source: Researcher's computation, 2019.

The ANOVA table tells us the overall significance of the model. The F-statistics is the regression mean square (MSR) divided by the residual mean square. F- Statistics determines whether the model is a good fit for the data based on its significance level. A significant value of F- statistics shows that the model is better at predicting the outcome value of the dependent variable than its average. If the significance value of the F-statistics is smaller than 0.05 then the independent variable(s) is significant to explaining the variation in the dependent variable and the null hypothesis is accepted. Table 4.6.2 show an F-statistics value of 4.169 and a p-value of 0.044 which is less than 0.05. It suggests that there is significant relationship between clients' appraisal and financial performance. H_1 of significant relationship is therefore accepted and H_0 of no significant relationship rejected.

Table 4.6.3: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.489	1.029		7.276	.000
	Clients appraisal	-.415	.203	-.202	-2.042	.044

a. Dependent Variable: financial performance

Source: Researcher's computation, 2019

The standardized coefficients or beta is an attempt to make the regression coefficient more comparable. It provides a useful way of seeing what impact that changing the explanatory variable

by one standard deviation will have on the dependent variable. It is usually equal to the correlation coefficient between the variables.

HYPOTHESIS 2:

OBJECTIVE 2 – To analyze is there is a relationship between credit risk and corporate performance of quoted food and beverage manufacturing firms in Nigeria.

H_0: there is no significant relationship between credit risk and corporate performance of food and beverage manufacturing firms in Nigeria.

H_1: There is a significant relationship between credit risk and corporate performance of food and beverage manufacturing firms in Nigeria.

Table 4.7.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.096[a]	.009	-.001	.490

a. Predictors: (Constant), credit risk

Source: Researcher's computation, 2019.

In Table 4.7.1, R value is 0.096. This mean that the positive correlation between financial performance and credit risk is 9.6%. The R square value is 0.009 (0.9%) meaning credit risk can only explain 0.9% variation of financial performance while holding other independent variables constant.

Table 4.7.2: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.219	1	.219	.911	.342[b]
	Residual	23.571	98	.241		
	Total	23.790	99			

a. Dependent Variable: financial performance

b. Predictors: (Constant), credit risk

Source: Researcher's computation, 2019.

Table 4.7.2 show an F-statistics value of 0.911 with a p-value of 0.342. This is more than 0.05 (5%) significance level. This suggest the adoption of H_0 of no significant relationship and the rejection of H_1 of significant relationship between financial performance and credit risk.

Table 4.7.3: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.972	.611		9.766	.000
	credit risk	-.111	.117	-.096	-.955	.342

a. Dependent Variable: financial performance

Source; Researcher's computation, 2019

HYPOTHESIS 3:

OBJECTIVE 3 – To determine the relationship between credit policy and corporate performance of quoted food and beverage manufacturing firms in Nigeria.

H_0: There is no significant relationship between credit policy and corporate performance of quoted food and beverage manufacturing firms in Nigeria

H_1: There is a significant relationship between credit policy and corporate performance of quoted food and beverage manufacturing firms in Nigeria.

Table 4.8.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.087[a]	.007	-.003	.491

a. Predictors: (Constant), Credit policy

Source: Researcher's computation, 2019

In Table 4.8.1, R value is 0.087, meaning 8.7% positive relationship between the credit policy and financial performance. The R square value is 0.007 meaning, 0.7% variation in financial performance can be explained by credit policy in the beverage industry.

Table 4.8.2: ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.178	1	.178	.739	.392[b]
	Residual	23.612	98	.241		
	Total	23.790	99			

a. Dependent Variable: financial performance

b. Predictors: (Constant), Credit policy

Source: Researcher's computation, 2019

Table 4.8.2, shows the F-statistics value of 0.739 with a corresponding p-value of 0.392. The p-value is more than 0.05 (5%) significance level. This suggests that there is no significant relationship between financial performance and credit policy in the beverage industry in Nigeria. This signify the adoption of H_0 and the rejection of H_1.

Table 4.8.3: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.009	.446		11.243	.000
	Credit policy	.084	.098	.087	.860	.392

a. Dependent Variable: financial performance.

Table 4.9.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.230[a]	.053	.023	.485

a. Predictors: (Constant), credit risk, Credit policy, Clients appraisal

Table 4.9.1 show an overall R value of 0.230 (23.0%) positive correlation between the dependent variable (financial performance) and the independent variables (credit risk, credit policy and clients appraisal). The R square value is only 0.053 meaning 5.3% variation in financial performance can only be explained by the independent variables.

Table 4.9.2: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.255	3	.418	1.782	.156[b]
	Residual	22.535	96	.235		
	Total	23.790	99			

a. Dependent Variable: financial performance

b. Predictors: (Constant), credit risk, Credit policy, Clients appraisal

Source: Researcher's computation, 2019

Table 4.9.2 show the F-statistics value of 1.782 with a corresponding p-value of 0.156. The p-value is more than the p-value of 0.05 (5%) the significance level. This signify that the relationship between the dependent variable and the independent variables jointly is not significant.

Table 4.9.3: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7.574	1.277		5.931	.000
	Credit policy	.069	.097	.071	.708	.481
	Clients appraisal	-.391	.205	-.190	-1.906	.060
	credit risk	-.099	.115	-.085	-.855	.395

a. Dependent Variable: financial performance

Source: Researcher's computation, 2019

Table 4.9.3 reveal the contribution of each of the independent variables to the model. It revealed that all the independent variables do not significantly contribute to the model as they showed insignificant p-values (0.481, 0.060 and 0.395).

Therefore:

$FP = 7.574 + 0.069 (CP) + (-0.391) (CA) + (-0.099)(CR) + e_t$

4.4 DISCUSSION OF FINDINGS

What we plan to achieve here is to interpret in relation with the findings and how it agrees and disagrees with previous studies.

The result gotten from the first hypothesis shows that the R value of 0.202 which indicates 20.2% and explains that there is a low positive relationship between clients' appraisal and corporate performance while the adjusted R square of 0.031 which is the explanatory value (client appraisal) explains 3.1% of the total variable on the corporate performance of food and beverage manufacturing companies .Table 4.6.2 show an F-statistics value of 4.169 and a p-value of 0.044 which is less than 0.05. and it signifies that there is a significant relationship between client appraisal and corporate performance.

The second hypothesis has a result that explains that there is no significant relationship between credit risk and corporate performance. In Table 4.7.1, R value is 0.096. This mean that the positive correlation between financial performance and credit risk is 9.6%. The R square value is 0.009 (0.9%) meaning credit risk can only explain 0.9% variation of financial performance while holding other independent variables constant.

The third hypothesis gave an overall R value of 0.230 (23.0%) positive correlation between the dependent variable (financial performance) and the independent variables (credit risk, credit policy and clients appraisal). The R square value is only 0.053 meaning 5.3% variation in financial performance can only be explained by the independent variables. Table 4.8.2, shows the F-statistics value of 0.739 with a corresponding p-value of 0.392. The p-value is more than 0.05 (5%) significance level. This suggests that there is no significant relationship between financial performance and credit policy in the beverage industry in Nigeria.

These findings align with the findings of Kungu, Wanjau, Waititu and Gekara (2014) in the study of Effects of credit policy on profitability of Manufacturing firms in Kenya that there is a positive relationship between credit policy and profitability. The findings from Kungu, Wanjau, Waititu and Gekara (2014) revealed that the way credit policy is designed impacts on the profitability of firms. Oyadonghan and Bingilar (2014) conducted a study on credit policy and liquidity and he found out that manufacturing companies do not monitor and review their credit policy regularly so cash discounts could not be minimized as much as possible.

Table 4.9.1 shows an overall R value of 0.230 (23.0%) positive correlation between the dependent variable (financial performance) and the independent variables (credit risk, credit policy and clients appraisal). The R square value is only 0.053 meaning 5.3% variation in financial performance can only be explained by the independent variables. Table 4.9.2 show the F-statistics value of 1.782 with a corresponding p-value of 0.156. The p-value is more than the p-value of 0.05 (5%) the significance level. This signify that the relationship between the dependent variable and the independent variables jointly is not significant which is in contrast with the findings of Alice and Shukla (2016). This study found that client appraisal, credit risk control and collection policy had effect on financial performance of Equity bank. The study established that there was strong

relationship between financial performance of Equity bank and client appraisal, credit risk control and collection policy. The study established that client appraisal, credit risk control and collection policy significantly influence financial performance of Equity bank. Collection policy was found to have a higher effect on financial performance and that a stringent policy is more effective in debt recovery than a lenient policy. The reasons for such difference could be because these studies were carried out on different sectors of the economy.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

The study examined Credit management and corporate performance of quoted food and beverage manufacturing companies in Nigeria as at 2019. Three theories were reviewed for the course of this study and they include: Transaction cost theory, asymmetric information theory and Portfolio theory. In order to achieve our objective and test all our hypotheses, the primary method of data collection was adopted and the research instrument used was questionnaire. This study made use of Regression analysis to analyze the data and show the relationship between the variables. The following are the findings that originated from this study;

1. There is a significant relationship between clients' appraisal and Corporate performance of Quoted food and beverage manufacturing companies in Nigeria.

2. There is no significant relationship between credit risk and Corporate performance of Quoted food and beverage manufacturing companies in Nigeria.

3. There is no significant relationship between Credit policy and Corporate performance of Quoted food and beverage manufacturing companies in Nigeria.

5.2CONCLUSION

This research project concludes that there is no joint significant relationship between the independent variable and the dependent variable. Although the study shows that there is a significant relationship between clients' appraisal and corporate performance, it also reveals that

credit policy and credit risk is not significantly related to corporate performance. For credit risk and credit risk to be significant, it needs to have a p value that is less than 0.05

5.3 RECOMMENDATION

The following recommendations are made:

1) Management should ensure competent personnel are assigned for carrying out client appraisal.

2) For credit policy to be significant, it must be drawn out in alignment with the organizations goals and objectives.

3) For credit risk to be significant, personnel that deal with credit management should be able to properly access the character of customers to immediate payment.

4) The ability and capacity of customers to repay loan should be assessed by competent personnel of the organization.

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APPENDIX I

This questionnaire is meant to collect data regarding the research topic "the effect of credit management on corporate performance."

CONSENT: Kindly tick the appropriate box to signify your consent to be part of this study

Yes ☐ No ☐

Section A: Bio-Data

Instruction: Tick the appropriate **box** as relating to your personality.

1. Name of company: ________________________________
2. Gender: A. Female ☐ B. male ☐
3. Age group: A. 18 to 30 ☐ B. 31 to 40 ☐ C. 41 to 50 ☐ D. 51 to 60 ☐ E. Above 60 ☐
4. Marital Status: A. Single ☐ B. Married ☐ C. Widow/Widower ☐ D. Separated ☐ E. Divorced ☐
5. Educational Qualifications: A. School Certificate ☐ B. Undergraduate ☐ C. Post Graduate ☐
6. Years of experience: A. 1 to 5 years ☐ B. 6 to 10 years ☐ C. 11 to 15 years ☐ D. 16 to 20 years ☐ E. Above 20 years ☐

Section B: CREDIT MANAGEMENT

i. The Effect of clients' appraisal on corporate performance

Kindly indicate the extent to which you agree or disagree with the statement using the following.

(1 = Strongly Disagree, 2 = Disagree, 3 = Fairly disagree, 4 = fairly agree, 5 = Agree, 6= Strongly agree)

S/NO	STATEMENTS	SD 1	D 2	FD 3	FA 4	A 5	SA 6
1.	Client appraisal is a viable strategy for credit management in this company						
2.	This company has competent personnel for carrying out client appraisal						
3.	Client appraisal considers the character of the customers seeking credit facilities.						
4.	Aspects of collateral are considered while appraising clients.						
5.	Failure to assess customers' capacity to repay results in loan defaults.						

ii. Credit risk.

Kindly indicate the extent to which you agree or disagree with the statement using the following.

(1 = Strongly Disagree, 2 = Disagree, 3 = Fairly disagree, 4 = Fairly agree, 5 = Agree, 6 = Strongly Agree)

S/NO	STATEMENTS	SD 1	D 2	FD 3	FA 4	A 5	SA 6
6.	Imposing credit limits is a viable strategy in credit management of this company.						
7.	The use of credit checks on regular basis enhances credit management in this company.						
8.	Flexible repayment periods improve liquidation of credit sales.						
9.	Penalty for late payment of amount due enhances customers' commitment to early payment.						

iii. Credit policy.

Kindly indicate the extent to which you agree or disagree with the statement using the following.

(1 = Strongly Disagree, 2 = Disagree, 3 = Fairly disagree, 4 = Fairly Agree, 5 = Agree, 6 = Strongly **Agree)**

S/NO	STATEMENTS	SD 1	D 2	FD 3	FA 4	A 5	SA 6

10.	Formulation of collection policies have been a challenge in credit management.						
11.	Available collection policies have assisted towards effective credit management.						
12.	Enforcement of guarantee policies provides chances for recovery of outstanding debts in case of defaults.						
13.	Staff incentives are effective in improving recovery of outstanding debts.						
14.	Regular reviews have been done on collection policies to improve state of credit management.						

Section C: FINANCIAL PERFORMANCE

Kindly indicate the extent to which you agree or disagree with the statement using the following.

(1 = Strongly Disagree, 2 = Disagree, 3 = Fairly disagree, 4 = Fairly Agree, 5 = Agree, 6 = Strongly Agree)

S/NO	**STATEMENTS**	**SD** **1**	**D** **2**	**FD** **3**	**FA** **4**	**A** **5**	**SA** **6**

15.	This company enjoys a high level of sales.						
16.	This company enjoys a reasonable level of profit						
17.	The revenue of this company exceeds the expenses						